

FINANCIAL TIMES



French elections
First broadsides
of the campaign
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UK steel industry
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Exporting to India
Big Brother
lends a hand
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World Business Newspaper

WEDNESDAY FEBRUARY 15 1995

Buoyant chemical prices help lift BP 36% to £427m

Buoyant chemical prices boosted British Petroleum's fourth-quarter replacement cost profits to £427m (\$682m), a 36 per cent rise on 1994 and the company's best quarterly performance since 1990. The results, which were at the top end of analysts' expectations, took full-year profits to £1.48bn, 32 per cent up on 1994's £1.12bn. Page 21; Lex, Page 14

France loses fight on broadcast quotas: France lost its battle to persuade its EU partners to support stricter quotas on the screening of Hollywood films and other foreign productions by European broadcasters. Page 14

Daimler-Benz, German car group, is likely to take a majority stake in Cap Gemini Sogeti, French software company, giving it control of Europe's largest information technology group. Page 15

UK opens way for electricity takeover: The UK government cleared the way for the first takeover of a privatised UK electricity company by announcing it would not refer Trafalgar House's hostile bid for Northern Electric to the Monopolies and Mergers Commission. Page 14 and Lex; Editorial Comment, Page 13

Jeit for French presidential campaign: France's presidential election campaign was jolted by an opinion poll putting Socialist contender Lionel Jospin level with conservative prime minister Edouard Balladur. Jospin would halt privatisations. Page 3; Every man for himself, Page 13

IG Metall ready for talks: German engineering industry employers called for deadlocked pay talks to resume after IG Metall union leaders left the way open for a peaceful solution. Page 2

Zedillo halts action against rebels: Mexican president Ernesto Zedillo halted military action against peasant guerrillas in the southern state of Chiapas and said he was willing to seek a negotiated settlement. Page 4

Washington unites on privatisation: The Clinton administration and the new Republican majority in Congress are joining hands to give new life to the theme of privatisation. Page 4

Brussels aims to drop border controls: Jacques Santer, European Commission president, is set to arouse opposition from the UK, Denmark, Ireland, Sweden and Finland when he calls for border controls inside the EU to be dropped. Page 9; Editorial Comment, Page 13

Japanese banking row: A senior member of the New Frontier party, Japan's leading opposition group, quit amid allegations over his relationship with two troubled credit associations. Page 6

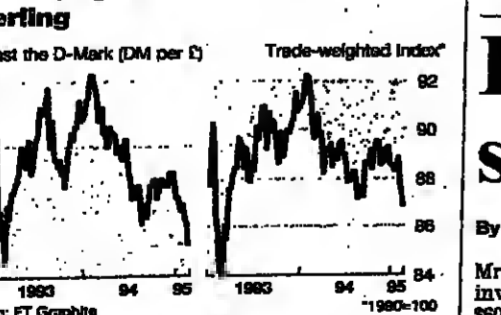
EU to cut development aid: Aid from the EU to developing countries is set to be reduced as ministers meet in Brussels to review how much to pledge to the European Development Fund. Page 5

European car sales rise 3.7%: European new car sales increased year-on-year by 3.7 per cent in January. Page 5

S African court to rule on death penalty: South Africa's new Constitutional Court must decide on the future of the death penalty and of nearly 450 people who have been sentenced to die. Page 7

London Stock Exchange prices: We regret that some London share prices and related information, including the FT-SE Actuaries All-Share Index, could not be updated in time for this edition due to technical problems at Ertel Financial.

Pound at two-year low against D-Mark: Sterling yesterday slipped to its lowest level for two years against the D-Mark as a mix of political and economic worries weighed on the currency. It finished in London at DM2.3563, from DM2.3741. The trade-weighted index finished at 86.9, the lowest since August 1994. There was no indication of Bank of England intervention to support the pound. Currencies, Page 25



STOCK MARKET INDICES		GOLD	
New York Composite	3,952.33 (+1.58)	New York Comex (Apr)	377.2
Dow Jones Ind	788.76 (+0.68)	London	374.8
NASDAQ Composite	1,850.31 (+18.09)	Close	375.9
Europe and Far East	2,115.95 (+13.20)		
CAC40	2,115.95 (+13.20)		
FTSE 100	2,115.95 (+13.20)		
Nikkei	15,138.4 (+175.38)		
US LUNCHTIME RATES		DOLLAR	
Federal Funds	6%	New York futures	1.5895
3-mth Treas Bill	5.94%	DM	1.5104
Long Bond	7.53%	FF	3.229
		SF	1.2738
		Y	98.5
OTHER RATES		London	1.5367 (1.5368)
UK 3-mo Interbank	6.75%	DM	1.5137 (1.5184)
UK 10 yr Gilt	9.1%	FF	3.2473 (3.261)
France 10 yr OAT	9.48%	SF	1.279 (1.2818)
Germany 10 yr Bund	9.48%	Y	98.6 (98.57)
Japan 10 yr JGB	9.629%		
NORTH SEA OIL (Arapac)		STERLING	
Brent 15-day (Apr)	516.775 (16.625)	DM	2.3563 (2.3741)
		Tokyo close	Y 98.75

Austria	Swk	Greece	D-Mk	Mk	Libor	Clear	Offshore
Bahamas	Dmt	Hong Kong	HK\$	Marocco	US\$	S. Africa	SR11
Belgium	Bfr	India	Rs	Peru	US\$	Singapore	S\$4.30
Bulgaria	Lev	Ireland	Ir£	Romania	Lei	Slovakia	SK\$1.60
Cyprus	Cyp£	Italy	Lira	Saudi Arabia	Riyal	Spain	Ptas225
Czech Rep	CzK	Japan	Yen	Sweden	Krona	Switzerland	Sfr
Denmark	Dkr	Malaysia	Mal\$	Switzerland	Sfr	Taiwan	Nt\$20
Egypt	E£	Norway	Nkr	Thailand	Baht	Turkey	Lira
Finland	Fmk	Poland	Pol\$	UK	£	UAE	Dh12.00
France	Ffr	Portugal	Escudo				
Germany	DM	Slovenia	Tolar				

Japanese loan scandal flares as reformer quits

By Gerard Baker in Tokyo

The government-backed rescue of two small Japanese financial institutions yesterday turned into a major political controversy with the resignation of a reformist politician whose party had pledged to fight corruption. The resignation of Mr Toshio Yamaguchi, deputy secretary-general of the New Frontier party, is a setback for opposition groups attempting to overhaul the political system and put an end to the era of "money politics". The affair is also a blow to Japanese banks, to the Bank of Japan, the central bank, and to Mr Harumori Takahashi, one of the country's most colourful developers, whose investments once included an Australian university and a floating luxury hotel moored on the Saigon River in Vietnam.

Mr Yamaguchi quit after newspapers reported that the Tokyo Kyowa and Anzen credit associations, the subject of criminal investigations, had both lent large sums of money to his relatives. It was alleged yesterday that

Y3.5bn (\$35.5m) in loans were made to six companies managed by the relatives, and were used for the construction of half-completed golf courses and country clubs. The two credit associations were rescued by the Bank of Japan last December and merged into a new institution, Tokyo Kyodo Bank. The bail-out, which has provoked public opposition, came after the discovery of more than ¥100bn in bad loans, most to the ambitious Mr Takahashi and his ailing property company, EIE

International. Mr Takahashi was chairman of Tokyo Kyowa, and a senior executive of Anzen. He is reported to have been a close friend of Mr Yamaguchi, who said yesterday that he wanted to stand back from the loan controversy. "I'd like to draw a clear distinction between my role as a party leader and the reference to my name in this case, so that from now on, my party colleagues can deal with this [the loan issue] impartially," Mr Yamaguchi said. In a letter of resignation accepted by the party leadership,

Mr Yamaguchi added that he had never had personal interests in those family companies alleged to have received the loans. He denied reports that he had asked Mr Takahashi to assist in arranging loans to those companies. The banks are alleged to have misrepresented their accounts and conducted a range of illegal transactions. Under Japanese banking law, financial institutions are not permitted to lend more than 20 per cent of their total capital to one customer. The sums involved in the loans to Mr Yamaguchi's relatives were considerably higher.

The controversy surrounding the rescue of the two institutions seems set to widen. Large banks, including the Long-Term Credit Bank, also ran into trouble with their loans to Mr Takahashi. In addition to his links with opposition politicians, Mr Takahashi is understood to be close to leading figures in the Liberal Democratic party, now part of a ruling coalition. Japan loan scandal outcry grows louder, Page 6

Tale of two great cities and the leaders trying to restore their fortunes

New York to slash spending by \$2.7bn

By Richard Tomkins in New York

Mr Rudolph Giuliani, the Republican mayor of New York, yesterday attempted to resolve its growing financial crisis by announcing the biggest package of cuts in benefits and services since the city's brush with bankruptcy in 1975.

In what critics swiftly dubbed the St Valentine's Day Massacre, Mr Giuliani outlined plans for slashing \$2.7bn spending from the budget for the year starting this July, with the brunt of the cuts falling on welfare programmes for the poor.



Moscow mayor fights to keep city at centre

By Chrystia Freeland in Moscow

Since 1917, when the Bolsheviks moved the seat of Russian government from St Petersburg back to the Kremlin, the medieval fortress of Russian tsars, Moscow has enjoyed a privileged place in Russian life.

control over all land in Moscow, which has become a city with some of the highest property prices in the world and one of the world's least transparent property markets.

New York's planned spending total in the fiscal year about to begin is \$30.5bn, more than that of some small countries. By law, it has to balance its books: but in spite of earlier spending cuts and a reduction of more than 20,000 in the municipal workforce from the peak of 216,000 early last year, Mr Giuliani has found himself \$2.7bn short of the sum needed to pay next year's bills.

Part of the reason is the recent downturn in revenues caused by poor profits on Wall Street and a stagnant property market. But Republicans say the city's real problem is that its long tradition of generosity towards the needy has left it with a far greater array of social services than the local economy can afford.

Other money-saving measures include a crackdown on welfare fraud through the purchase of a finger print recognition system. This will verify the identity and eligibility of applicants for welfare benefits and medical aid. A total of \$1.2bn of savings will come from cuts in Medicaid, which provides healthcare for the indigent, and from two programmes that provide financial assistance for the unemployed: Aid for Families with Dependent Children, and Home Relief.

The bulk of these savings, some \$800m, stem from reductions in Medicaid entitlements already announced by Mr George

Two mayors with daunting battles: Rudolph Giuliani (pictured at top) yesterday took radical steps to tackle New York's financial crisis unveiling plans to slash \$2.7bn from the budget for the year starting this July. His Moscow counterpart Yuri Luzhkov (above) is fighting through his control over his real estate to keep Moscow Russia's most prosperous city

Mr Vladimir Gusinsky, head of the Most banking and media empire, acknowledges that Most, which still has offices in the city hall, owes its initial rise to a good relationship with Mr Luzhkov. "Mr Luzhkov's political power is based on the financial groups that bought property in Moscow," says Mr Andrei Volgin, a Moscow broker. "I think we will now see quite a serious fight between the Moscow financial groups supporting Luzhkov and the oil and gas lobby which support Prime Minister Viktor Chernomyrdin." For Moscow's 9m inhabitants, Continued on Page 14

Buffett chases 10 per cent stake in American Express

By Tony Jackson in New York

Mr Warren Buffett, the US investor, has spent more than \$600m since the start of the year buying shares in American Express, the financial services group.

After a period of upheaval and falling earnings, the company, best known for its credit cards and travel agency, appears to be in a recovery phase. According to Mr Harvey Golub, chairman, earnings are set to rise by 12-15 per cent a year.

American Express shares, which had risen 10 per cent since the turn of the year, rose a further 1% in early trading yesterday to \$39.

Mr Buffett, who has been described as the most successful US investor of the century, specialises in taking large long-term stakes in companies. A notable example was his 1989 investment in Coca-Cola, which has since outperformed the US market by 160 per cent, giving his holding a

value of almost \$5bn. Berkshire Hathaway's share price rose \$450 yesterday to \$22,950. This gives the company a market value of \$27bn, compared to \$16.6bn for American Express.

Despite Mr Buffett's high reputation, he has had some ups and downs. His involvement with the Wall Street brokerage house Salomon, where he holds almost 20 per cent of the voting stock, has had its share of problems. The UK drinks company Guinness, which he started buying in early 1992 in his first big move overseas, has since underperformed the London market by 40 per cent.

It was separately announced yesterday that Berkshire Hathaway had an 8.3 per cent stake in the Pittsburgh banking group PNC Bank Corp, worth around \$480m, and had marginally reduced its holding in the defence firm General Dynamics to 8.4 per cent.

Mr Buffett has been involved with American Express over the years, having bought \$300m of

special preferred stock in the company in 1991. At the time American Express was wrestling with the problems of its broking business Lehman Brothers, since sold.

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Jospin would halt privatisations

By John Riddling in Paris

Mr Lionel Jospin, the Socialist candidate in the French presidential elections, said yesterday that if elected he would halt the country's privatisation programme, the centrepiece of the conservative government's industrial policy.

Speaking in a radio interview, however, Mr Jospin indicated that he would not seek to renationalise the banks, insurance companies and industrial groups which have been privatised since the centre-right government of Mr Edouard Balladur took office in March 1993.

"I think it is scandalous that the privatisation programme is continuing," he said, referring to the list of 31 public sector groups already sold or earmarked for sale by the government. "I am for stopping the programme, but not for renationalisation."

The Socialist candidate for the April-May elections suggested, however, that the ownership of the country's large water distribution companies, Lyonnaise des Eaux



Front-runner: Prime Minister Balladur campaigns in the southern town of Montelimar yesterday

and Générale des Eaux, should be examined. Last year a series of corruption investigations into utilities and public works companies prompted several politicians to propose nationalisation to avoid political funding scandals.

Mr Jospin's stance towards

privatisation resembles the "M-N" (Neither, Nor) policy of the previous Socialist government, which held office between 1988 and 1993. Under this policy, laid down by President François Mitterrand and his prime minister, Mr Michel Rocard, companies already pri-

vatized would remain in the private sector but further departures from public ownership were ruled out.

Mr Edouard Alphandery, the French economics minister, and one of the principal architects of the privatisation drive, attacked Mr Jospin's stance,

which he described as "old-fashioned socialism". "Mr Jospin appears not to have understood the movie at all," he said, adding that in all countries, including those governed by Socialists, privatisation was being implemented. Analysts played down the impact of Mr Jospin's comments on financial markets. "I don't think the markets will be very worried," said Mr Jean-François Mercier, economist at Salomon Bros. He cited the fact that Mr Jospin trails far behind Mr Balladur in the polls and that Socialists have tended to adopt a pragmatic stance once in power.

Other observers questioned the popularity of the stance. The privatisations conducted so far - including the sale of Elf Aquitaine, the oil group, and Rhône-Poulenc, the chemicals and pharmaceuticals concern - have drawn an average of more than 2m investors. Although the slump in share prices has limited enthusiasm for recent issues, such as Renault, unions have failed to win support for their opposition to the sales.

Italian party logos: how the symbols clash



Italian party line-up is heavy on image

Professor Romano Prodi has just added another shrub to Italy's overgrown political horticulture. The olive tree will be the symbol for the broad centre-left coalition forming up behind the Bologna economist, ready for the next election campaign.

The olive, explained Prof Prodi this week, is a plant with "strong roots, resistant to bad weather. It's tough... but also soft and beautiful, the symbol of Italy and hard work."

It is also, according to legend, a tree which grows best next to the oak, which happens to be the symbol of Italy's Democratic Party of the Left (PDS), the former communists whose support Prof Prodi needs if his quest for political power is to succeed. It is a symbol of peace, but also features in Christian imagery, which could prove useful in wooing the former Christian Democrats, to whom he has always been close. A safe but unexciting choice was the verdict of image consultants.

Choosing a party logo is difficult, but vital in a country crowded with parties. Fourteen parties competed in last March's elections, bearing a bouquet of horticultural images: they included the

more support nationally. But it is sure to stick with the image of a Lombard knight with raised sword, which should come as a relief to those League faithful who enjoy dressing up in chain mail and clanking off to party rallies.

The great image-maker of Italy's Second Republic is Mr Silvio Berlusconi, who outdid everybody last year when he called his political party Forza Italia (Go Italy!). His inspired choice of a simple but arresting corporate image helped him the election and brought him the accolade "International Marketing Superstar" from a US trade magazine.

Prof Prodi is not in the running for this title. The vehicle for his centre-left movement is the ploddingly named *Comitato Per l'Italia Che Vogliamo* (Committee for the Italy We Want).

That said, as Mr Berlusconi has discovered, there is a little more to Italian politics than image and he will face a tough fight in the election if Prof Prodi gains support. The ex-prime minister's main weapon may be his campaign experience and, in this respect, Prof Prodi is more like the best known product of his olive tree symbol: pure and extra-virgin.

Revamp of Libération newspaper fails

By John Riddling

A few months after a radical redesign at Libération, the left-leaning French daily newspaper, the air of expectancy has turned sour.

The newspaper said yesterday that it was launching a rigorous cost-cutting plan and reversing key elements of its re-design, including a doubling in the number of pages. On Monday Mr Jean-Louis Péninou, the managing director and one of the architects of the new look Libération, announced his resignation.

The implications extend beyond the newspaper's modernist headquarters.

Other mainstays of the French newspaper industry, such as Le Monde, have also launched new designs aimed at turning the tide of declining revenues and advertising receipts. Analysts say it is too early to gauge the effects of Le Monde's January relaunch. But the failure of Libération to free itself from the problems of the newspaper industry demonstrates the struggle faced by the French press in reversing a trend of declining sales and revenues.

The problems at Libération reflect disenchantment with the redesign, which was aimed at curbing losses of FF70m (\$13.2m) last year and reviving stagnant sales of about 170,000 copies a

day. "The new formula has not been very well received by the traditional readership," said Mr Serge July, the editor, in a letter to staff. Media analysts said there was no single reason for the disappointing reception, but blamed competition for readers and said the new layout was sometimes confusing.

Libération has also suffered from more general problems facing the French press, in particular a shortage of capital and higher costs, partly reflecting an increase in paper prices. The newspaper says that its circulation has grown from last year and has made significant progress outside Paris. But the increase is inadequate to stem

losses, recoup a decline in sales since 1993 and draw new capital. "We were losing about FF2m per month with the old formula, now we are losing between five and seven times that amount," said a company official.

In response, Libération is tightening its belt. About 90 jobs are to go, including about 70 part-time or temporary positions. At the same time the newspaper will scale back the ambitions of its re-design. Instead of the 70 or 80 pages to which readers have become accustomed since last September, it will now weigh in at about 60 pages. The newspaper is planning to raise its price from FF76 (\$1.10) to FF77 from April.

UN keeps the peace - but also the divide

By John Barham in Nicosia

There is probably no better monument to the 31 years of the United Nations in Cyprus than the 180km buffer zone dividing Greek-Cypriots from Turkish-Cypriots.

In the countryside it is little more than a rusty barbed wire fence or a farm track. In the capital Nicosia, the world's only divided city, it is a fearsome complex of earthworks, trenches and watchtowers manned by troops 24 hours a day.

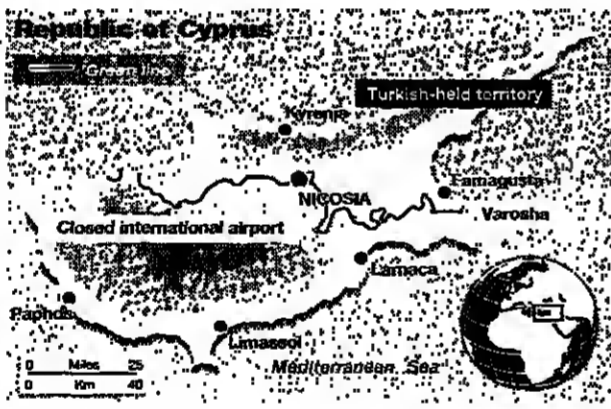
The UN delineated the zone to separate the two communities and their opposing forces following the August 1974 Turkish invasion of Cyprus. The buffer zone, sometimes as wide as 10m or as narrow as a few metres, is like a time capsule.

It contains Nicosia International Airport, with its decaying terminals, and the seaside resort of Varosha, a ghost town since its mainly Greek-Cypriot population of 30,000 fled in 1974. In the suburbs of Nicosia graceful villas stand empty, their gardens overrun by wild vegetation.

Depending on one's viewpoint, the UN's meticulous policing of the buffer zone is a rare example of successful peacekeeping. It has prevented a resumption of civil war that began in 1963. The last serious clash took place two years ago when Turkish forces shot dead a Greek-Cypriot soldier.

However, an increasingly fashionable opinion is that the UN-sanctioned partitioning of Cyprus has further widened the gulf between the two communities. The post-1974 generation of Greek and Turkish-Cypriots know little about each other, making a lasting solution all the more elusive. Even UN officials agree in private that the division line has become a barrier to progress.

Cyprus is again featuring on the international agenda. The European Union is negotiating a settlement plan in which Greece would lift its veto over customs union between the EU



and Turkey. In exchange, Brussels would set a date for beginning talks over EU membership for Cyprus. As part of the deal, Turkey would encourage the Turkish-Cypriots to accept a formula allowing the island's reunification.

Yet there is no sign of relaxation in the buffer zone. If anything, UN officials say, tension is rising. One UN peacekeeping officer said: "Both sides are rearming at quite an alarming rate, probably to get a better negotiating position."

Cyprus is already one of the most militarised places on earth. About 43,000 Turkish and Greek troops are stationed on the island, backed up by billions of dollars-worth of armour, aircraft and artillery.

UN officials fear conflict could easily break out again. "The UN officer says his main job is to prevent minor incidents, like exchanges of insults between soldiers, from escalating into exchanges of fire and troop movements."

The UN has accepted a role closer to the theatre of the absurd than peacekeeping to maintain this uneasy status quo. Each morning UN soldiers must count every single sandbag and gun emplacement along the Green Line. Reinforcement is forbidden. The UN officer said: "If one single sandbag has been added or an extra brick placed on a wall I have to go out and negotiate with the offending side to remove it."

The zone's boundaries have never been precisely demar-

cated. The Greeks refuse to negotiate with the Turkish-Cypriots' "illegitimate" government and consider the Turkish army an invasion force. The Turks treat the zone as an international frontier. As a result, apparently trivial disputes over territory could lead to fighting.

Even the UN becomes involved in these squabbles. Outside Nicosia stands Maria's House, a former brothel. Today it is surrounded by a fence, with a Turkish flagpole planted beside it. The UN says Maria's House is part of the buffer zone. The Turks claim Maria's House is theirs.

The UN and the Turkish army reached a compromise after arduous negotiations. The Turks agreed to withdraw, but only after fencing off the environs of Maria's House to the UN and winning permission to enter the fenced-off area twice a year to replace their flag.

Undaunted, the UN has drawn up a package of confidence-building measures allowing some movement between the two sides. Varosha would become a free trade zone. Nicosia airport would be reopened for use by both sides. These measures would alleviate an international trade embargo on the Turkish north Cyprus.

Frustratingly, there has been very little progress on implementing these measures. There is no such thing as a unilateral concession on Cyprus. Every action must have its corresponding *quid pro quo*.

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Sell-offs gain support in Washington

By George Graham
in Washington

Budget hawks and government efficiency advocates are joining hands to give new life to the theme of privatisation in Washington.

Both the Clinton administration and the new Republican majority in Congress are showing greater enthusiasm for privatisation, as the interests of those who want to find ways of cutting the federal budget converge with those who want to "reinvent government" to make it function more effectively.

The new mood has brought a variety of government activities, ranging from air traffic control to electricity generation, into the spotlight as possible candidates for spinning off into the private sector, or at least into some form of corporate status in which they could finance themselves by charging fees to the groups that use their services.

Mr Federico Peña, transportation secretary, went to Capitol Hill yesterday to argue the case for converting the US air traffic control system into a government corporation, which could tap the capital markets to finance the long-delayed modernisation of its systems.

"Our proposal would establish a wholly owned, not-for-profit government corporation, freed from the federal budget, personnel and procurement systems. It would be financed by users and have the ability to finance capital pro-

grammes, as would any corporation," Mr Peña told a congressional transportation committee.

Financing the air traffic control system by charging user fees to airlines would, according to some congressional estimates, save around \$1.5bn a year from government spending.

User fees are gaining prominence as an idea for financing other regulatory agencies. The budget presented last week by President Bill Clinton contains proposals for charging a 10 cent fee on futures and options transactions to finance the Commodity Futures Trading Commission, as well as an overhaul of the Securities and Exchange Commission's fee structure which would leave it largely self-financed.

But one of the toughest fights in Congress may come over plans to sell off four government electrical power administrations, which privatisation advocates have long targeted as being glaringly out of place in the government sector.

The Clinton budget proposes the sale of the Alaska, South-eastern, South-western and Western power marketing administrations over the next three years to raise a net total of \$3.7bn. But the administrations, which provide cheap electricity to consumers in their regions, are hugely popular with the voters. In the western states, in particular, any attempt to tamper with the power administrations quickly becomes a campaign issue.

Zedillo offers olive branch to Zapatistas

By Leslie Crawford in Mexico City

President Ernesto Zedillo of Mexico yesterday ordered a halt to the military offensive against peasant guerrillas in Chiapas, saying he was still willing to seek a peaceful negotiated settlement to the year-long uprising in the impoverished southern state.

The president's olive branch to the Zapatista National Liberation Army follows a six-day military offensive in which the Mexican army recaptured

most of the towns held by the Zapatista rebels during their 12-month insurgency.

The Zapatistas have retreated deep into the Lacandon jungle near the Guatemalan border, from where they have pledged to continue fighting.

Mr Zedillo said his government was still open to finding a peaceful resolution to the conflict. He offered an amnesty to Zapatistas who renounced armed struggle and promised greater resources to bring "housing, drinking

water, roads and electricity" to the state's indigenous communities.

"The Mexican army will not undertake any offensive action; it will only conduct patrols to prevent acts of violence," he said.

The prospect of a protracted guerrilla war had begun to worry the president, who ordered the military operation in Chiapas and the arrest of the Zapatista leadership following the discovery of arms caches in Mexico City and the state of Vera Cruz.

Government officials say the purpose of the military operation was to re-establish the government's presence in territory "liberated" by the Zapatistas, in order to strengthen Mr Zedillo's hand in negotiations to end the conflict.

They admit that the chances of capturing Subcomandante Marcos, the guerrilla's charismatic military leader, are slim.

In a further move to appease the Zapatistas, the controversial governor

of Chiapas requested indefinite leave of absence from his post yesterday - tantamount to an offer of resignation.

Mr Eduardo Robledo Rincon, a member of the ruling Institutional Revolutionary party (PRI), had taken office only 68 days ago following elections which the opposition claims were marred by fraud. Both the Zapatistas and the left-wing Revolutionary Democratic party (PRD) had demanded his resignation.

Abortion issue no safe bet for US right

Jurek Martin reports on a political two-edged sword

At least seven out of 10 Americans, according to opinion polls, subscribe to President Bill Clinton's belief that abortion should be "safe, legal and rare". But 22 years after the Supreme Court asserted a woman's constitutional right to reproductive choice, no subject returns to haunt US politics with such force and frequency.

Mr Clinton himself has been feeling the heat over his nomination as US surgeon-general of Dr Henry Foster, a gynaecologist from Nashville with a widely admired record of public service, but who has, in a long career, performed a number of abortions.

The Republican party too was reminded over the weekend that opposition to abortion remains a litmus test of political acceptability for many conservative activists. Mr Ralph Reed, head of the Christian Coalition, warned prospective presidential candidates that they had better subscribe to "the sanctity of innocent human life" or expect vehement opposition.

There is little doubt that Mr

Clinton's problems over the Foster nomination were self-inflicted by his staff who failed to anticipate that questions were certain to be asked over the number of abortions Dr Foster had performed. The succession of answers - first one, then about a dozen, in the end 39 - found the nomination entangled in a bizarre and defensive numbers game.

Conventional Washington wisdom has it that Mr Clinton needs this embarrassment like a hole in the head, especially after his approval ratings had started to rise again.

However, the counter-attack, first launched by a handful of Democratic congresswomen and quickly picked up by Mr Mike McCurry, the confident new White House press secretary, may yet shift the ground under public opinion, even if it does not save the nomination.

For the new line is that Dr Foster is the victim of unreasonable attack by the right-wing "extremists" now running the Republican party.

Whether by accident or design, Mr Reed's remarks to the Conservative Political Action Conference in Washing-

ton have proved useful ammunition to the administration, some of whose members have been itching for a winnable fight against the right since the mid-term elections last November.

Mr Reed's message also came as something of a surprise. Until recently he had said his movement's fundamental goals - which include a constitutional amendment to ban abortion - could be temporarily subordinated to support for the secular Republican Contract with America and to the election of a Republican president next year.

But over the weekend he seemed more intent on telling pro-choice Republicans they were not welcome on board the party's 1996 campaign bus. His clear targets included three governors who could well adorn the ticket next year - Pete Wilson of California, Christine Todd Whitman of New Jersey and Bill Weld of Massachusetts. They have all said the party platform next year should not be saddled with strong pro-life language, as it was, to no good effect, in 1992.

Senator Robert Dole, the majority leader and probable current front runner for the nomination, opposes abortion, but not to the point of making it illegal. He frequently speaks of broadening the base of the party, not narrowing it by the adoption of exclusive or confrontational policies.

But he finished a distant second in an informal straw poll of delegates to the conservative conference. Far in front of him was Senator Phil Gramm of Texas, with 40 per cent, while Mr Dole, at just over 12 per cent, was only fractionally ahead of Mr Pat Buchanan.

Former vice president Dan Quayle would doubtless have scored well had he not pulled out of the race a few days before. Indeed the bluntness of Mr Reed's warnings to remaining prospective candidates may reflect disappointment at the disappearance of a man as popular with the religious right as Mr Quayle.

Mr Gramm, otherwise a dogmatic conservative, has also said that Republicans would be better advised not to dwell on abortion in the approaching campaign. But a truer indica-



Buchanan, left, and Foster: more than a nomination row

tion of his allegiance was gleaned in a Washington Post report that the Republican Senate campaign committee which he chaired gave \$175,000 to the national right-to-life movement just before the elections last November.

At least Mr Buchanan, whose "cultural wars" speech to the Republican convention in 1992 was so divisive and who could run again as a Republican or as an independent next year, never equivocates. He told the conference: "Anyone who tries to rip that

[anti-abortion] plank out of the platform will have to answer to Pat Buchanan."

Amid all the super-heated rhetoric, the fact remains that abortion normally disappears from the charts as a single issue determining the votes of many people in presidential elections. But it can be a much bigger factor in determining who gets to run for president - and who gets appointed to government. Dr Foster may never be surgeon-general, but his opponents might find their victory short-lived.

Election blow for Quebec secession

By Robert Gibbons in Montreal and Bernard Simon in Toronto

Canada's ruling Liberal party has won a vital Quebec by-election, pointing to an uphill struggle for secessionist forces ahead of the province's planned referendum on independence.

The Liberal candidate, Mr Denis Paradis, defeated his pro-sovereignty Bloc Québécois rival in rural Brome-Missisquoi, south-east of Montreal, by a comfortable 2,500-vote margin.

The result reinforces opinion polls which indicate that most Quebecers want to remain part of Canada. The Bloc sought to play down its sovereignty agenda in the by-election, but the Liberals tried to turn the poll into a mini-referendum on independence.

Despite its defeat, the Bloc remains the official opposition in the House of Commons in Ottawa. But with 52 MPs, it is now only one seat ahead of the right-of-centre Reform party, based in western Canada. Mr Jean Chretien, Canada's Liberal prime minister, said that the Brome victory indicates "the federalist forces are poised to win the coming Quebec referendum on sovereignty. The Quebec people will say no to separation."

In two other Quebec by-elections, also held on Monday, the Liberals retained seats which they have held for many years.

Mr Jacques Parizeau, Quebec's separatist premier, has promised a sovereignty referendum early this summer or in September. Eighteen government-appointed commissions are currently roving the province in a bid to drum up support for a split from Canada. But the commissions, which will continue work until early March, have so far had mixed results.

They have captured wide media attention, especially in rural Quebec where support for sovereignty is strongest. But the message coming from the hearings has been diffuse, with many witnesses preferring to talk about local or special-interest issues, rather than independence.

AMERICAN NEWS DIGEST

US employers' health costs fall

US employers' healthcare costs fell last year, indicating that greater use of cost-efficient "managed care" schemes is bringing inflation in the medical sector under control. Average health costs for companies with 10 or more workers fell 1.1 per cent to \$3,741 per employee, a survey by Foster Higgins, a New York consultancy, found. This followed an 8 per cent increase in 1993 and double-digit increases in previous years. Costs fell because the proportion of employers using health maintenance organisations (HMOs) and other, lower forms of managed care rose sharply last year to 63 per cent from 52 per cent in 1993. Managed care differs from the traditional "fee for service" insurance schemes because the managing agents supervise the decisions of doctors and hospitals contracted with them, allowing them to control costs while maintaining quality. HMOs charge a fixed annual fee per enrollee, limit patients to scheme doctors and stress primary and preventive care. Companies with more than 500 employees reduced health costs by 1.9 per cent last year. But smaller companies, which tend to make less use of managed care, saw costs rise 6.5 per cent. Michael Prouse, Washington

Retail sales edge up in US

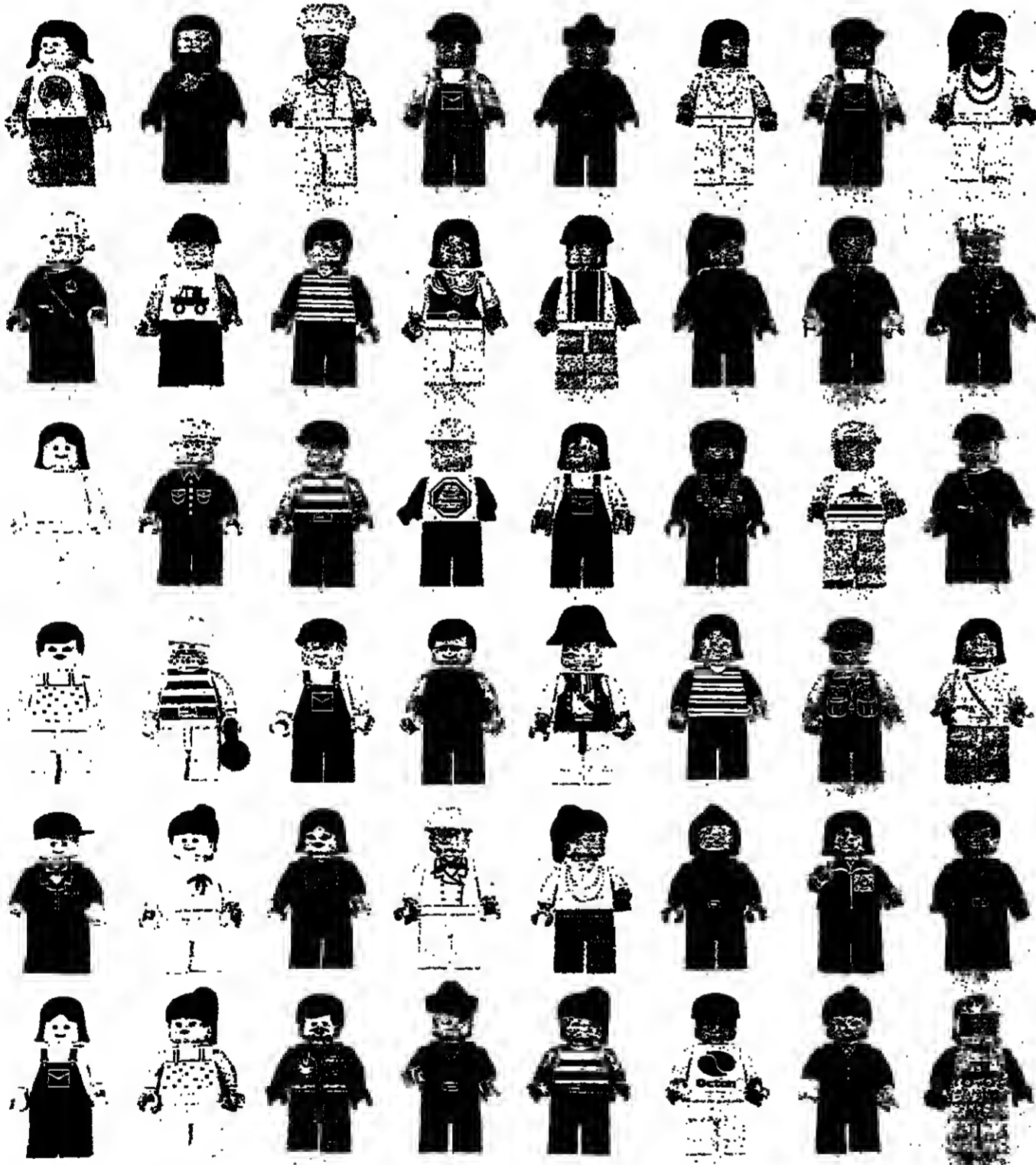
US retail sales rose 0.2 per cent in January, the Commerce Department reported yesterday, while December's increase was revised upwards to 0.2 per cent from minus 0.1. Last month's rise was slightly lower than Wall Street economists had predicted, suggesting that the Federal Reserve's year-long monetary tightening had begun to bear fruit, economists said. "This ought to be comforting to the Fed because we're not seeing consumer spending accelerate once again," said Mr Dan Seto, an economist at Nikko Securities. "It's an improvement but it's not like consumers are rushing back to the stores." Weak sales in apparel and eating and drinking were offset by stronger-than-expected sales of petrol, general merchandise and foods. Reuters, Washington

Peru, Ecuador ceasefire starts

A ceasefire declared by Peru in its border conflict with Ecuador went into effect at noon yesterday, after 19 days of fighting. President Alberto Fujimori, announcing the unilateral ceasefire on Monday night, said Peru's armed forces had succeeded in dislodging Ecuadorian troops from within national territory. Ecuador accepted the ceasefire but disputed Mr Fujimori's claimed territorial gain. Ecuador maintains that the disputed bases known as Tiwinza, Cueva de Tayos, Base Sur and Comogoe are still under their control and yesterday invited journalists, representatives of human rights organisations and international observers to verify the claim. Sally Bosen, Lima

Haiti plans sweeping sell-offs

The International Finance Corporation, the World Bank's private sector arm, is to advise the Haitian government on the privatisation of nine state-owned enterprises in an arrangement to "democratise" public assets. Haiti will sell off its power and telecommunications companies, port, airport, two banks, a cement company and two agri-businesses, allowing foreign investors to take majority shares. The IFC has yet to determine the structure of each sale, but it has been agreed that part of the revenues raised will be used to improve schools, hospitals and roads. The government is expected to hold minority stakes in each privatised company and plans to set aside shares for victims of the ousted military regime. Nancy Dunne, Washington



SPOT THE REFUGEE

There he is. Fourth row, second from the left. The one with the moustache. Obvious really.

Maybe not. The unsavoury-looking character you're looking at is more likely to be your average neighbourhood slob with a grubby vest and a weekend's stubble on his chin.

And the real refugee could just as easily be the clean-cut fellow on his left. You see, refugees are just like you and me.

Except for one thing.

Everything they once had has been left behind. Home, family, possessions, all gone. They have nothing.

And nothing is all they'll ever have unless we all extend a helping hand. We know you can't give them back the things that others have taken away.



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We're not even asking for money (though every cent certainly helps). But we are asking that you keep an open mind. And a smile of welcome.

It may not seem much. But to a refugee it can mean everything. UNHCR is a strictly humanitarian organization funded only by voluntary contributions. Currently it is responsible for more than 19 million refugees around the world.

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السوق المالية

Zapatista



New Danube crossing in Balkans is planned

By Andrew Taylor, Construction Correspondent

Proposals for a much-needed new crossing of the River Danube between Bulgaria and Romania, to reduce long delays for lorries avoiding Yugoslavia, will be submitted this month to the EU, and Bulgarian and Romanian governments.

Congestion has increased as traffic has been forced to find alternative routes to once heavily used road links through Yugoslavia, connecting western Europe with Greek, Turkish and Middle Eastern markets.

At least 1.5m tonnes of freight, equivalent to 60,000 lorries a year, are estimated to have been diverted through northern Adriatic ports alone since fighting there began.

A lack of adequate crossing points and border facilities on the Danube, which runs along the Bulgarian-Romanian border, however, has inhibited alternative road routes through the Balkans.

In a bid to improve trade links, the EU has financed a study of four potential locations for a road or rail crossing, most likely to be a bridge. Construction costs range from \$150m-£400m (\$194m-£492m) depending on what solution is chosen.

Private investors would be expected to provide much of the finance for a toll bridge, although the EU might be prepared to provide some seed



corn finance to assist the project through its Phare programme, which channels aid to eastern and central European countries.

Interest in a privately financed crossing between Bulgaria and Romania previously has been expressed by Mitsubishi of Japan as well as Turkish, Austrian and South African contractors, according to Bulgarian officials.

The latest study, conducted by Sir Alexander Gibb & Partners, the British consulting engineers, will consider financing options as well as developing traffic forecasts and the cost of providing additional road and rail links to connect to a new crossing.

Mr Brian Gibb, Gibb director heading the project, said: "Currently there is only one

road bridge crossing the Danube, between Ruse in Bulgaria and Giurgiu in Romania. There is also a ferry between Vidin and Calafat. A second ferry crossing was started between Oryakhovo and Bechet last year.

Even so, there can be delays of up to several days at some crossings.

The four locations being considered by Gibb are between Vidin and Calafat; Lom and Ruse; Oryakhovo and Bechet; and a stretch of river, the so-called Corabia corridor, between Zagraden and Nikopol in Bulgaria and Corabia and Turnu Magurel in Romania.

Construction would take about three years, enabling a new crossing to be completed by the end of the century.

Seeking to aim aid at competitiveness

Caroline Southey on moves to revamp the EU's development and trade assistance

Under the Lomé Convention the European Union provides the most generous preferential access to markets offered anywhere. It is the world's biggest single aid programme. And its days are numbered.

In Brussels a comprehensive re-appraisal of the 20-year-old convention - an aid and trade package for the sub-Saharan African, Caribbean and Pacific (ACP) countries first signed in Lomé, Togo in February 1975 - is due to take place once a mid-term review of the current agreement has been completed. There is growing awareness among Commission policy makers and ACP member countries that the historical level of aid, to which the EU has committed £14.2bn (\$14.8bn) through the European Development Fund for 1980-95, cannot be sustained and that, after the Uruguay Round, preferential trade arrangements are a thing of the past.

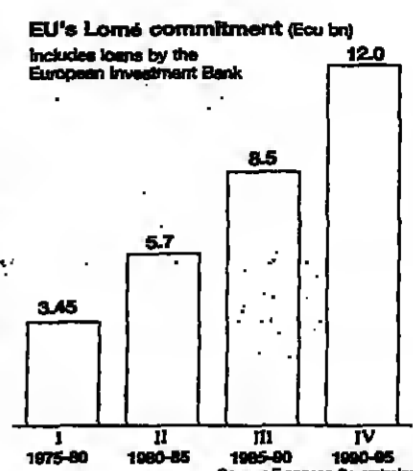
Brussels rows between the EU and ACP countries and between EU member states during the nine-month-long mid-term review of Lomé IV have thrown into stark relief the difficulties the convention faces beyond the year 2000.

The mid-term review, due to be completed by the end of this month, marks a turning point. Policy makers, led by Mr João de Deus Pinheiro, the new EU commissioner for the ACP countries, are beginning to develop a strategy driven by one primary objective: an improvement in the competitiveness of the ACP countries.

"The idea," says Mr Peter

Lomé: the EU-ACP partnership

- The four conventions are successive development aid and trade agreements between the EU countries (15) and the ACP nations: African (47), Caribbean (15) and Pacific (68).
- The first three lasted for five-year periods; the current Lomé IV is a 10-year agreement (1990-2000), with a mid-term review this year.
- The economic and social development aid programmes are financed by the European Development Fund, the world's biggest aid programme, made up of contributions from EU member states above direct contributions to the EU budget.
- All ACP industrial products have access to the EU free of duty and quotas, including textiles but excluding rules, subject to rules of origin.
- Most ACP agricultural products also enter free of duty, but those that compete with EU products covered by the Common Agricultural Policy are subject to tariff and/or quota restrictions.



Pooley, the Commission's deputy director general for development, "is to integrate aid and trade better and use the aid instruments in a concerted and planned way to help increase the ACP's productivity and their effectiveness and competitiveness in terms of trade."

The objectives of the Lomé Convention would be more closely allied with World Bank aid objectives. Macro-economic targets would include technical assistance to establish currencies that were not overvalued and encourage the participation of the private sector as well as inward investment.

"There is very little tradition of the private sector in ACP countries. Most have become accustomed to state trading

systems. With technical assistance these can be converted to the private sector which will do the work for nothing," Mr Pooley says.

At a micro-economic level, programmes would be aimed at specific export sectors to improve design, market research, transport and insurance.

"Instead of doing little bits of dispersed activity the idea is that we work on the basis of having a plan for the whole chain," Mr Pooley says. A further change, signalled in the mid-term review, is that the EU will begin pressing harder for ACP countries to take note of donor priorities when applying for disbursements. Among the areas identified as needing particular attention are education, health

and training, which Commission officials believe are central to the economic development of ACP countries.

"Time was when we said, 'there's your aid money, tell us what you want to do with it. That should no longer be the case,'" says a senior Commission official.

The issue is sensitive. ACP countries have resisted what they see as EU efforts to dictate aid policy. But Mr Gherard Berthoin, secretary-general of the ACP, agrees there is a need to change the way in which money is spent. "The aid should not be used whimsically. There should be proper implementation of projects and greater efficiency."

This realism is an indication of the ACP countries' commitment, shared by the Commis-

sion, to retain the multilateral arrangement. Both sides point to the advantages of co-ordinating aid policies.

"There are a number of projects for which co-operation is extremely important and which cannot be left to one country or to one region," argues Mr Berthoin. He cites as examples the battle against desertification and against AIDS.

ACP countries argue that the EU must put its money where its mouth is if it wants the new policies to work.

"They cannot expect us to do more but commit less money," says Mr Berthoin. "Investment in the ACPs is crucial if they want us to compete on the same footing," he says, noting that EU member states are investing heavily in Latin America and Asia.

For its part the Commission is fighting a rearguard action to protect levels of aid. "Development aid is not popular, particularly with long jobless queues at home. Added to this is the unpopularity of the Commission in some member countries. Some hold the view that any money given to us is probably wasted as effectively as if you had given it to a dictator," a senior Commission official says.

What the Lomé Convention will look like in the next century remains unclear. "We are seeing the end of a special relationship. Not by choice, but because we want it, but because if we want to retain it in some form we will have to do something about it," says Mr Berthoin.

WORLD TRADE NEWS DIGEST

Apec bid to please both rich and poor

The 18 members of the Asia-Pacific Economic Co-operation Forum will tomorrow start two-track talks on free trade measures and economic help for poorer members of the bloc. The double approach was agreed yesterday at a meeting of senior Apec officials in Fukuoka, Japan.

It is the group's first step towards trying to put detail into a vague plan to liberalise trade and investment in the region, accounting for roughly half of world trade, by 2020. Japan, current Apec chairman, proposed the two-track talks in an attempt to bridge the different aspirations of the US and developing Asian countries.

The US is keen to press ahead on free trade, to gain access to fast growing Asian markets and to improve the bloc's negotiating clout; while Asian members such as Malaysia and China see it as a loose economic co-operation forum and are fearful of US economic domination. William Dawkins, Tokyo

Telecom groups set standards

Thirty-seven telecommunications and information technology companies from Europe, North America and Asia said yesterday they had formed a consortium to develop global standards for telecoms software.

The Telecommunications Information Networking Architecture Consortium (TINA-C) seeks to "develop an architecture that will enable the efficient introduction and management of telecommunications services on a worldwide basis," the consortium said. TINA-C includes companies such as AT&T, IBM and Bellcore of the US, Japan's Fujitsu, Hitachi and NEC, and Europe's British Telecom, Alcatel, Deutsche Telekom and Telecom Italia. AFP Tokyo

World airlines will post their first profit in five years after reporting healthy gains in passenger and freight traffic for 1994, the International Air Transport Association said yesterday. Most of the growth was in the Asia Pacific region.

A contract worth \$2.5bn (\$1.75bn) to build a rail link between Sydney and Kingsford Smith Airport has been awarded to a joint venture between Bouygues, the large French construction group, and Transfield, an Australian construction company.

Steady advance in car sales in western Europe

By Kevin Done, Motor Industry Correspondent

West European new car sales increased year-on-year by 3.7 per cent in January to 1,068,000 continuing the modest recovery begun last year.

Sales were higher than a year ago in 11 of 17 markets across west Europe led by strong demand in France and Scandinavia and increasing signs of recovery in Italy.

New car sales in west Europe rose by 5.9 per cent last year to 11.9m, but demand still remains well below the record level achieved in the four years from 1989 to 1992 of around 13.45m.

The pace of recovery has been slowed by weakening demand in the UK, where new car registrations fell last month by 3.7 per cent year-on-year to 151,000, the fourth successive monthly decline.

The recent recovery in new car demand in Germany, the biggest single market in west Europe, was also halted in January with sales falling by an estimated 1.7 per cent to 245,000.

In France new car sales rose by 21 per cent year-on-year in January to 156,000 from 129,200 a year ago, which was the final month before the French government introduced financial incentives to encourage the scrapping of old cars.

In Italy new car registrations rose last month by 7.7 per cent confirming the rising trend of demand established since

August last year. Leading carmakers are forecasting only a modest overall increase in new car sales in west Europe this year of 3 to 4 per cent to around 12.2m.

Fiat of Italy, which includes the Lancia and Alfa Romeo brands, Ford and Renault all gained ground strongly in January.

The Fiat group moved into second place in the market narrowly ahead of General Motors of the US (Opel in continental Europe and Vauxhall in the UK). The Italian carmaker increased its registrations by 12.4 per cent to 141,100.

It raised its market share to 13 per cent from 12 per cent a year ago helped by the recovery in the Italian market, where the Fiat group accounted for 47 per cent of all new car sales in January.

Ford of the US raised its car sales across Europe by 10.7 per cent helped by a very strong performance in Germany, where it claimed more than 12 per cent of the market compared with only 8 per cent a year ago.

The Volkswagen group of Germany, the leader of the west European car market and which includes Audi, Seat and Skoda, suffered the highest setback among the leading volume carmakers with an estimated decline in its sales of 5.7 per cent to 154,000. Its market share fell to 14.3 per cent from 15.6 per cent a year ago.

The US says Chinese counterfeiting of entertainment and information products is costing US industry \$1bn a year in lost revenue.

China has also stalked out a tough position, warning that it would not yield to US pressure.

US sanctions have targeted imports of plastics, toys, sporting goods, and answerphones among 35 categories. China has said it will impose higher tariffs on US cigarettes, alcohol and cosmetics. It would also freeze negotiations with US car makers on new car projects.

US negotiators are pressing China to strengthen enforcement against widespread piracy of such items as laser and compact discs, video games, films, books and magazines, and computer software.

The Americans are also demanding improved access to the China market for information and entertainment products, arguing greater availability of these items would provide the Chinese with a legitimate alternative to pirated copies.

Beijing objects to US attempts to link market access with stricter enforcement. It says that access should be dealt with through specific bilateral negotiations.

Western officials and business representatives in Beijing expect the dispute to be resolved in a last-minute compromise. But this trade row has appeared more than usually complex.

Britain and Germany to cut ACP aid

By Michael Holman in London and Judy Dempsey in Bonn

European Union aid to developing countries faces its first cut in real terms when ministers meeting in Brussels today to review the Lomé Convention discuss how much to pledge to the European Development Fund.

Yesterday Britain and Germany made clear they would reduce their contributions from 1995, when existing

pledges run out. Among the beneficiaries of the fund are 40 of the world's poorest countries, part of the 70-member group of African, Caribbean and Pacific (ACP) nations which enjoy preferential trade terms under the convention.

Although official explanations of the cut include the claim that bilateral aid is more efficient, ministers from the ACP believe the reduction reflects changing aid priorities, with competing claims from

eastern Europe, Russia and the Mediterranean.

Britain intends to "make a sizeable reduction" in its contribution to the EDF, Baroness Chalker, overseas development minister, said yesterday, while officials in Bonn also warned of cuts.

Lady Chalker said British aid disbursed through the European Union was rising from about 24 per cent of total budget to around 40 per cent in three years. "I don't find this

acceptable," she said. The British allocation to EDF will be at the expense of the bilateral programme, "yet it is the bilateral programme that is doing very well indeed."

Britain also had to contribute to the replenishment of the International Development Association (IDA), the soft loan arm of the World Bank. "The more we do on IDA, the less we do on EDF, the less will trigger more resources from Japan and the United States."

In Germany, which contributes 26 per cent of the EDF's £1.08bn (\$1.32bn), Mr Theo Waigel, finance minister, wants to cut contributions by 30 per cent, while the foreign ministry wants a 5-6 per cent reduction.

However, an official said it was unlikely that Mr Waigel would get his way as Bonn did not want to upset the French, who are committed to increasing their EDF contribution by 20 per cent.

US-China talks go into Round 9

By Tony Walker in Beijing

Chinese and American trade negotiators today return to the bargaining table for last-itch talks aimed at heading off a trade war over copyright violations. This will be the ninth round since last June.

China yesterday called on the US to "demonstrate flexibility".

Washington has said it will impose sanctions on \$1.08bn worth of Chinese imports if there is no agreement by February 26. China has threatened retaliation.

Mr Mickey Kantor, the US trade representative, said on Monday that China must play by the rules. "We are fighting for US workers and will stand up for our country and our products," he said.

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Japan loan scandal outcry grows louder

The drama embraces not only the usual cast but some august players, writes Gerard Baker

When a bank lends a sum equivalent to more than 80 per cent of its total capital to a company to build a golf course, some people get suspicious. What emerges that the president of that bank is also the president of the company building the course, suspicions begin to harden.

When it transpires that the same bank also allegedly lends large sums of money to close relatives of a former cabinet minister, the familiar outlines of a Japanese financial scandal start to materialise.

The story of how Mr Harunori Takahashi was able to pull off this act, remarkable even by Japanese standards, is starting to emerge with the resignation yesterday of Mr Toshio Yamaguchi. It is a particularly all-embracing story of financial incompetence, including as it does, not only the usual cast of politicians from both opposition and governing parties, property developers, and bankers, but even some august players from the Bank of Japan and the Finance Ministry. It demonstrates that the political and financial detritus from the years of the so-called bubble economy in the late 1980s is still very visible.

When the Bank of Japan stepped in to rescue two small credit associations last December, it seemed like just another clean-up operation from those years of financial excess. The bank announced it was injecting

Y20bn (\$202m) of its own money and was persuading private banks to put another Y20bn of theirs into a new company that would take over the operations of Tokyo Kyowa and Anzen credit associations.

The scheme was designed to keep them afloat following the discovery of large numbers of non-performing loans on their balance books.

The two associations had lent heavily during the years of rising asset prices to property-related companies, and following the collapse of asset prices in the early 1990s, they, like many Japanese banks, found themselves submerged by bad loans.

But the BoJ's decision was in fact more curious than it at first seemed. Only six weeks earlier, the outgoing governor of the bank, Mr Yasuhiro Mieno, had declared in a videotaped speech that banks in Japan could no longer regard themselves as invulnerable to market forces.

If they got into trouble as a result of their own imprudence they could not expect to be rescued. Only if their failure represented a "systemic risk" could they expect support from the authorities. "It is not the business of the central bank to save all financial institutions from failure," he said.

But the two associations, with combined bad loans of just Y100bn, could hardly be said to have represented a systemic risk. Public criticisms of

the rescue plan began to surface, most notably when Mr Ryutaro Hashimoto, minister for international trade and industry, said the bail-out was a "dangerous precedent". In the last month, as details of the two associations' activities have leaked out, the public outcry has become shrill.

At the centre of the scandal is one of Japan's more colourful financiers, Mr Harunori Takahashi, a youthful-looking 49-year-old, established a name for himself in the 1980s as a successful property developer. As president of a company called EIE International, he specialised in building golf courses and resorts around the world, including Australia and the US. But in a move that appears not to have raised suspicions in the fertile climate of the time, in 1985 he became chairman of Tokyo Kyowa, a quasi-bank.

For several years following his new appointment, EIE became one of Tokyo Kyowa's most valuable customers. Under Japanese banking law, a financial institution is not permitted to lend more than 20 per cent of its total capital to one borrower. But with capital of about Y5bn, Tokyo Kyowa lent more than seven times its equity to EIE, thirty-five times the legal maximum.

Yesterday, it was alleged that both Tokyo Kyowa and Anzen had also lent similarly large sums of money to companies run by relatives of Mr Toshio Yamaguchi, the former Liberal Democratic party labour minister and until yesterday, deputy secretary-general of the New Frontier

party, a party committed to cleaning up the old-style corrupt Japanese politics. Mr Yamaguchi promptly resigned, saying he had never had personal interests in his relatives' companies. But thought it necessary to save the new party embarrassment.

Through the initial embarrassment belonged principally yesterday to the opposition, it could yet prove more discomfiting for the government. A series of unanswered questions focuses on the role of the authorities in the banks' activities.

The first is how the financial regulators allowed the banks to build up such a large portfolio of loans to one company, especially one run by the bank's own president. The government's defence is that the regulatory framework was, in fact, imperfect. Small institutions like the two rescued are regulated not by the Ministry of Finance or the Bank of Japan, but by local governments, in the case of these two institutions, the Tokyo Metropolitan Government.

A former ministry official said yesterday: "The problem is essentially a failure of regulation. There is inconsistency in the standards of bank supervision among the various regulatory authorities."

Aside from the fact that there are few obvious examples in recent history of the Japanese financial system's being under-regulated, the scale of

the irregularities at the credit associations was so large that most people find it inconceivable the companies could have got away without someone knowing about it.

"You can't just hide loans equivalent to 30 times your capital base under the carpet," one analyst said yesterday.

A second mystery is why the authorities moved to save the two institutions, so soon after the explicit warning by Mr Mieno. The explanation given by the government is that a real risk existed of financial chaos if the banks had been allowed to fail.

Mr Masayoshi Tabemura, the finance minister, said yesterday: "We had to maintain the stability of the financial system. With that in mind, the rescue was the only option."

These fears seem overdone. The failure of two small credit associations, known to have over-extended themselves in the boom years, would have been unlikely to set off a run on the whole banking system, which, as the BoJ is usually anxious to point out, has made great strides in ridding itself of its accumulated bad loans.

As popular anger at the use of public funds to bail out failed financial institutions grows, these questions are likely to be asked more insistently. If they are accompanied by more disclosures about Mr Takahashi's connections, they may prove damaging beyond repair.

ASIA-PACIFIC NEWS DIGEST

Investment in Korea up 264%

Foreign direct investment in South Korea increased by 264.3 per cent to \$102m (950m) in January from a year ago, the Finance and Economy Ministry said yesterday. Japan was the biggest foreign contributor during the month with \$37m for the projects, followed by the US with \$18m and the European Union with \$5m. During the same month last year, the US had led the list with \$14m; Japan and the European Union invested \$5m each. The investment was concentrated on the service sector, which attracted \$66 in January. Foreign investment in the manufacturing sector amounted to just \$3m.

South Korea's total foreign debt stood at \$54.18bn at the end of November last year, hitting a 10-year high, the Finance and Economy Ministry and the central Bank of Korea (BOK) said yesterday.

Total foreign debt represented a 23.4 per cent increase over a year ago, they said. After deducting its assets abroad, South Korea then had foreign debts of \$10.27bn. The net foreign debt was falling between 1985 and 1991, but it has been increasing over the past three years, the ministry said. BOK officials said the debt situation was not yet causing concern although net foreign debt had increased from 2.4 per cent of gross national product in 1993 to 2.7 per cent in 1994. Financial institutions borrowed \$31bn abroad in 1994, companies \$19.6bn and the government \$3.6bn. AFP, Seoul.

Japan's leading steelmakers are increasing output to help Kobe Steel, which suffered damage to its facilities in the January earthquake, to meet its obligations to customers.

Nippon Steel said it was taking an emergency measure to increase output by 100,000 tonnes to about 6.5m tonnes in the February to March period. The company's decision came after a request by Kobe to its Japanese competitors. Also increasing output by 60,000 to 70,000 tonnes and 40,000 to 50,000 tonnes respectively in order to fill the production gap created as a result of the damage done to Kobe Steel's facilities. Sumitomo itself suffered damage from the earthquake at two of its facilities in the affected region. Among specialty steel makers, Daido Steel and Aichi Steel also said they would be increasing output of steel for the car industry to cope with the impact of the earthquake on Kobe Steel. Kobe Steel said on Monday that the damage to its facilities would amount to Y74bn (\$484m). The company expects output at its Kobe facilities to return to normal levels by the second quarter of fiscal 1995.

However, the Japanese steel industry is bracing itself for increased demand for steel products as the region devastated by the earthquake begins to rebuild itself. While the increase in demand is likely to be spread over a number of years, steel used in construction is expected to start seeing strong demand later this year. Sumitomo Metal Industries estimates that the increase in demand, based on information available on the amount of damage done, is likely to be 3m tonnes over the next three years. *Michiko Nakamoto, Tokyo*

Japanese companies increased spending on machinery in 1994, for the first time in four years, indicating an end in a record decline in industrial investment. Machinery orders grew by 2.7 per cent to Y10,934bn (\$71bn) last year, the government's Economic Planning Agency announced. If this feeds through to a subsequent rise in overall industrial investment, as machinery orders have done in the past, this will restore a missing element to the fragile economic upturn. Industrial investment has continued to be weak despite the economy's gradual improvement early last year, a worrying contrast to Japan's previous corporate spending-led recoveries.

Companies spent 8.7 per cent more on buying machines in December than in the same month in 1993, the seventh month straight month of annualised rises. This excludes orders placed by shipbuilders and electric power utilities, so volatile as to obscure the trend. If those are added back in, machinery orders fell by 1.1 per cent to Y13,365bn, for the third year running. *William Dawkins, Tokyo*

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Taliban militants oust Hekmatyar's forces from key suburb

Student fundamentalists poised to seize Kabul

By Farhan Bokhari in Islamabad

The Taliban Islamic fundamentalist movement in Afghanistan yesterday scored its most important military victory, just before a United Nations mission started work to secure a transfer of power in the capital, Kabul.

The Taliban, a group of up to 20,000 Islamic students, yesterday took control of the suburb of Charasyab outside Kabul, after an overnight attack on

positions held by troops loyal to Mr Gulbuddin Hekmatyar, the former prime minister, who is locked in a bitter struggle with President Burhanuddin Rabbani.

The seizure of Charasyab leaves the Taliban at the gates of the capital.

The UN team is due in Kabul on February 18 to oversee a transfer of power from President Rabbani to an interim authority. Mr Rabbani's two-year term expired on December 28 and his rule seems threat-

ened by the Taliban advances. He has urged the UN mission to expedite the peace process.

Mr Hekmatyar's group, Hizbe Islami, conceded defeat and said that its troops were regrouping at the city of Konduz, 80km east of the capital. For more than two years the Hizbe Islami had used Charasyab as an operational base from which to attack Kabul.

The conflict has left at least 25,000 people dead and many thousands more injured. The latest Taliban victory

has demonstrated its military might, three months after it began a campaign to rid Afghanistan of mujahideen forces, western diplomats said. So far the group has seized control of more than seven of Afghanistan's 29 provinces; its success in Charasyab is the most important to date.

Members of some mujahideen factions in Pakistan's northern city of Peshawar last night said the Taliban was likely to encounter minimal resistance from Afghan gov-

ernment troops, if they entered Kabul.

The Taliban's relentless advance has raised doubts about the UN's ability to secure a peaceful transfer of power to a new 90-member council representing up to nine Afghan factions. In an effort to step up the transition process, Mr Mahmood Mestiri, head of the UN mission, said a "peaceful transfer of power" would take place by February 18, brought forward from February 22.

Mr Mestiri appealed to all sides to cease hostilities, open roads and restore electricity to Kabul. "The new developments in Afghanistan demonstrate the desire of the Afghan people for peace and the disillusionment with the present disunited situation in the country," he said.

However, some Pakistani officials were concerned that Mr Hekmatyar's humiliating defeat may prompt him to counter attack, further undermining peace efforts.

Pakistan's tax revenues up 50%

By Farhan Bokhari

Pakistan's tax revenues improved almost 50 per cent in January compared with the previous six-month period, due to a big shake-up in the taxation bureaucracy, Mr Y. Jafary, the prime minister's adviser on finance, said yesterday.

Despite this year's loss to the crucial cotton crop, the macro-economic indicators might not perform as badly as earlier feared, he added.

January's exports rose 15 per cent over the same month last year, while imports rose 7 per cent. Tax revenues for the month increased to Rs22bn (\$700m), up from an average monthly collection of Rs16bn (\$500m) since the new budget year began last July.

Mr Jafary's remarks came ahead of next week's crucial talks between Pakistan and the IMF in Washington. Pakistan is in the second year of a three-year structural adjustment programme, but is already lagging behind IMF targets.

The government forecasts a 5.3 per cent growth in gross domestic product for the year to 1996, down from a targeted 6.9 per cent. Officials are worried about inflation running at more than 14 per cent

annually, significantly higher than the 8-9 per cent aim.

The Pakistani government said yesterday it had restricted transit of certain luxury goods bound for Afghanistan because huge amounts were being smuggled back, costing the government millions of rupees in lost duties. Imported air-conditioners, refrigerators, television sets, black tea, tyres and other items will not be allowed to be transported into Afghanistan, Mr Jafary stated.

Despite the continuing civil war in Afghanistan, its transit trade via Pakistan had jumped from \$12m in 1989-90 to \$32m last year. The government had been forced to act to protect domestic industry from competition from cheap smuggled consumer durables.

Traders imported 35,000 refrigerators, ostensibly for Afghanistan, in the last six months of 1994, against 5,000 in the same period in 1993, officials said. The figure for air-conditioners jumped to 98,000 from 4,000 and television sets to 285,000 from 38,000.

Pakistani businessmen have reportedly set up "dummy" companies in Afghanistan, which import goods duty free, under the transit agreement. The goods are then smuggled back through remote passes.

U Nu of Burma dies aged 88

By Chit Tun in Rangoon

U Nu, Burma's only democratically elected prime minister, died yesterday in east Rangoon. He was 88.

U Nu, a former teacher and writer, became the first prime minister of independent Burma in 1948. He served three terms as prime minister and held the centre stage of domestic politics until 1962, when he was ousted in a military coup.

Forced into exile, he set up an insurgent organisation based in Thailand, which fizzled out in the early 1970s.

He returned to Burma in 1980 under the general amnesty proclaimed by General Ne Win, then president of Burma, and in 1988, when Burma was rocked by widespread pro-democracy protests,



U Nu: three terms as PM

he set up a "parallel government", claiming that he was still the legal prime minister of Burma.

The State Law and Order Restoration Council which seized power in September 1988 ordered him to disband his "parallel government". U Nu refused and was placed under house arrest. This was lifted in 1992, and he has since spent most of his time in Buddhist meditation.

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LEGAL NOTICES

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION COMPANIES COURT

IN THE MATTER OF ENGLISH & AMERICAN INSURANCE COMPANY LIMITED

IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that on 15 December 1994, the Scheme of Arrangement between English & American Insurance Company Limited (the "Company") and its Scheme Creditors (as defined in the Scheme of Arrangement) was approved by Scheme Creditors.

On 25 January 1995, the High Court sanctioned the Scheme of Arrangement as approved by Scheme Creditors.

On 31 January 1995, the United States Bankruptcy Court for the Southern District of New York granted a permanent injunction order under section 304 of the United States Bankruptcy Code, providing for the enforcement of the terms of the Scheme of Arrangement in the United States.

On 8 February 1995, the High Court ordered that the winding-up petition presented against the Company be dismissed and the appointment of provisional liquidators to the Company be terminated.

On 8 February 1995, the order made in the High Court sanctioning the Scheme of Arrangement was delivered to the Registrar of Companies in England for registration. The Effective Date of the Scheme of Arrangement is therefore 8 February 1995.

Anthony James McMahon and Roger Smith, partners in the firm of chartered accountants, KPMG, and formerly the joint provisional liquidators of the Company, were appointed Scheme Administrators on 10 February 1995.

The members of the initial Creditors Committee are:

The Institute of London Underwriters
The International Policyholders Association
Lloyd's Insurance Brokers Committee
Lloyd's Underwriters' Association
Participant Run-Off Limited
Fireman's Fund Insurance Company
Dow Corning Corporation
Hill Wynne Troop & Meisinger
Anderson Kill Olick & Oshinsky
Policyholders Protection Board

Dated: 10 February 1995

Clifford Chance
200 Aldersgate Street
London EC1A 4JH

Solicitors for:
Anthony James McMahon and Roger Smith
Scheme Administrators of the Company

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صباحنا من الامل

S Africa court must rule on death penalty

By Roger Matthews in Cape Town

South Africa's powerful and controversial Constitutional Court was inaugurated yesterday, with its first task to decide on the future of the death penalty and of nearly 450 people who have been sentenced to die.

The court, composed of nine men and two women, the majority of whom are white, is responsible for measuring the actions of the legislature, the executive and the judiciary against the bill of rights which forms the core of the country's interim constitution.

It can overturn legislation passed by the black majority in parliament if it considers a new law violates the constitution. It will also decide on the validity of the final constitution when the draft is completed.

President Nelson Mandela said at the inaugural ceremony in Johannesburg that he expected the court to be "creative and independent, not a rubber stamp". He emphasised that its primary responsibility was to protect the human rights of every South African.

Mr Mandela recalled that the last time he had stood before a court it was to hear whether he had been sentenced to death. One of his defence team on that day in 1964 had been Mr Arthur Chaskalson, who most recently played a significant role in drafting the interim constitution and was subsequently chosen by Mr Mandela to be the president of the new court.

Some politicians have expressed concern that these new arrangements, whereby the constitution has supremacy over parliament, will allow unelected judges to frustrate the wishes of the electorate. But Mr Chaskalson expressed his pleasure yesterday that South Africa would never again have to suffer under the doctrine of parliamentary supremacy.

The hearings into the future of the death penalty, which begin today, underline the challenges posed to the political system by the inauguration

of the new court. Submissions to the court claim that the death penalty runs counter to the bill of rights which gives every South African the right to life. If the court accepts that view, the death sentence will be abolished.

The coalition government of national unity is divided over the issue, with the majority African National Congress backing its abolition, and the former-ruling National party in favour of retention. With South Africa suffering one of the highest murder rates in the world, opinion polls have shown that most of the public also believes the death penalty should be kept.

The court's verdict on the issue will decide the fate of two men who were found guilty of murdering four people when they opened fire with AK-47 semi-automatic rifles on a bank security vehicle at a Johannesburg hospital in 1990. This case will serve as a test for 10 similar cases.

A range of submissions by organisations most closely involved have already been made and cover all the well-rehearsed arguments for and against the death penalty. The most politically charged draw on American experiences which suggest that by far the greatest number of those sentenced to death are poor and black. The prosecution service and police maintain that the country faces such a critical law and order situation that for murder and violent crime, the death penalty is still necessary.

As in the US with its Supreme Court, the arguments employed by the South African judges will be watched with intense interest.

Several are known to be opposed to the death penalty, but not all of them had their views tested publicly before being appointed. Others were members of the ANC and are thought likely to follow party policy. If nothing else, Mr Mandela's presence in court yesterday should have reminded the judges of how damaging capital punishment could be to a country's political future.

Politics mask N African population successes

European fears of migration from the Maghreb are exaggerated, writes Roula Khalaf

For many west Europeans, North Africa conjures up images of an exploding population breeding armies of young discontented and unemployed men prone to taking up arms in the name of Islam and forcing their westernised brethren to seek shelter in Europe.

Algeria's three-year civil strife has served to increase anxieties, especially in France, that a collapse of the army-backed Algerian government will flood the streets of French cities with immigrants.

Demographers say the issue has been politicised and the threat to Europe exaggerated, masking the deceleration in population growth and the efforts at population containment undertaken in all three North African countries.

The most striking feature of Algeria's 27.5m people, Morocco's 28m and Tunisia's 8.7m is that more than half is below the age of 25.

With 50 per cent unemployment among the young in Algeria and the country torn by civil strife, such statistics are cause for concern. Less so, however, in the developing economies of Morocco and Tunisia. Western portfolio managers investing in the area, for example, point out

that a young population on average will have less dependants, thus reducing the burden on the work force.

Annual population growth rates have been on a downward trend - from 3.14 per cent and 2.45 per cent respectively in Algeria and Morocco in 1975-1980 to an estimated 2.27 per cent and 2.06 per cent today - and they are projected to continue downwards.

What alarms Europe are oft-quoted EU figures, based on a 1992 World Bank study, which maintain that the projected increase in the Middle East and North African population by the year 2010 will dwarf the Bank's projections for gross domestic product growth, thus widening the GDP per capita gap between Europe and the Mediterranean to the level of 1 to 20 from a current 1 to 10.

However, a comparison of Europe with North Africa only reveals less pessimistic projections, with the wealth gap likely to rise to a level of 1 to 14 from 1 to 11. The gap is likely to be even lower. The World Bank's estimate of a 90m population in North Africa in 2010 has already been revised by the Bank to just over 86m. The UN estimate is 82.8m.

Mr Youssef Courbage, of the

Institut National d'Etudes Demographiques in Paris, argues that North Africa has emerged as an intermediate demographic area between Europe and the Middle East. One reason he says, is the region's heavier integration with Europe. "Without immigration, leading to remittances of savings, sending of consumer goods and above all the transfer of values and outlook, the transition to lower fertility would have been much less rapid," he concludes.

In 1992, Mr Courbage and Mr Philippe Fargues maintained in a study that demographic projections for the Maghreb were not as gloomy as many had suggested. By separating women according to their educational levels and projecting fertility rates based on each level, the demographers claimed the UN's 1992 projections were overestimated. (The UN this year revised its projections taking account of Mr Courbage and Mr Fargues' analysis.)

The demographers found that an Algerian woman with no education, for instance, bore 7.34 children compared with 3.39 children for a woman with secondary school or higher education. Although female illiteracy is still com-

The Maghreb populations

	MOROCCO	ALGERIA	TUNISIA
Population	28m	27.5m	8.7m
Growth rate	2.06%	2.27%	2.3%
Projected growth, 2010-20	1.19%	2.10%	1.19%
Aged under 25, 1995	57.32%	59.9%	55.4%
2020	46.9%	48.9%	45.4%
Live births per woman, 1980	7.17	7.28	6.97
1985	3.75	3.85	3.15
1994	1994	1995	1994
1982-90	1982-90	1982-90	1982-90

Source: UN estimates

mon throughout the Arab world, it is nowhere near the levels of 30 years ago. In the 1960s, 85 per cent of Algerian and 86 per cent of Moroccan and Tunisian women were illiterate. Today, more than half of Algerian and Tunisian women and nearly 40 per cent of Moroccan women can read and write.

Mr Courbage sees continued improvement in the lot of women through better access

to education and further urbanisation. In Tunisia polygamy was abolished after independence in 1956 and a legal age was set for marriage. Such reforms paved the way for a successful family planning programme, which helped bring fertility rates down from 5.9 children per woman in 1973 to 3.3 in 1992.

Although the Moroccan government has no explicit family planning policy, such services

are integrated within maternal and childcare services. King Hassan II has also recently asked for a review of the family code with the aim of promoting empowerment of women.

Algeria took much longer to embark on population containment programmes, but it achieved results quickly. Since the family planning scheme started in 1983, fertility rates have dropped from 6.35 to 4.61 in 1988, before stabilising at 4.45 between 1989 and 1992. Although some point to this plateau as evidence of how Algeria's population programme would fare under an Islamist government, the stagnation may just as well be due to the curtailment of services.

Nor is it clear that Algeria's Islamist party, should it come to power, would push back the gains in education achieved by women. According to Mr Courbage: "In the complex situation of the debate on Algeria's future, the myriad ideological and political uncertainties make it hard to postulate the future for women in its (Algeria's) economy. The radical solution - women's renunciation of their working lives - is not only illusory, but is not even unanimously pronounced by the leadership of the Islamic opposition parties."

INTERNATIONAL NEWS DIGEST

Arab nations draft arms pact

Egypt and the Arab League secretariat, piling pressure on Israel to disclose its nuclear secrets, have drafted a treaty that would make the Middle East a zone free of weapons of mass destruction. The treaty, submitted to representatives of Arab states at a meeting in Cairo yesterday, is designed to include Israel and Iran alongside all 22 members of the Arab League.

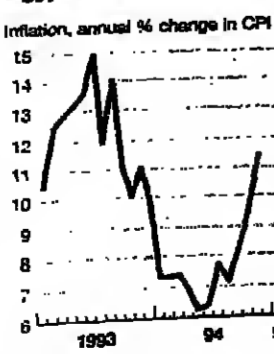
The present draft proposals would come into force only when eight core states signed and ratified it - Jordan, Israel, Iran, Algeria, Iraq, Saudi Arabia, Syria and Egypt. President Hosni Mubarak of Egypt proposed such a zone in 1990 but Egypt has not previously formalised it in a treaty.

The idea has again come to prominence as Egypt, Israel and the US manoeuvre over extending the Nuclear Non-Proliferation Treaty (NPT), which runs out this year. Mr Adnan Omran, an Arab League assistant secretary-general, linked the treaty directly to Israel's refusal to sign the NPT and to open its nuclear programme to international inspection.

The row over the nuclear treaty has driven a large wedge between Egypt and Israel. US attempts to mediate a compromise do not appear to have borne fruit. Mr Shimon Peres, Israeli foreign minister, said on Monday that he and his Egyptian counterpart had clashed on the subject in Washington. Against this background it is most unlikely that the treaty will come into force in the near future. However, diplomats said Egypt saw it as a way to mobilise Arab support against the nuclear status quo. *Reuters, Cairo*

Egypt sees surge in prices

Egypt



Egypt's inflation rate rose to 12 per cent last year from 9.7 per cent in 1993, government figures showed yesterday. The figures, released by the Cabinet Information and Decision Support Centre, reflect a surge in price rises which started in June last year. Year-on-year inflation at the end of November last year was 11.4 per cent. The government, committed to a wide-ranging programme of economic reform under World Bank and International Monetary Fund supervision, said last year it aimed to bring inflation down to 3-5 per cent by the end of 1995. The central bank discount rate - the interest rate charged on central bank loans to banks - has fallen steadily to 14 per cent, still 2 percentage points above inflation. Bankers said the price rises might mean discount rates start heading up again. *Reuters, Cairo*

Syria to build textile plants

Syria is to invest more than \$150m (£245m) in two new factories and the expansion of existing textile plants as part of a plan to boost the cotton industry. Mr Ahmad Nezzamuddin, a plan to boost the cotton industry, said. The plan would allow the industry minister, said. The plan would allow the private sector to engage in the spinning industry for the first time. Mr Nezzamuddin said Syria's annual production of cotton stood at 650,000 tonnes, yielding 234,000 tonnes of ginned products. Existing about 150,000 tonnes of ginned cotton are exported. Existing factories have the capacity to handle 80,000 tonnes of ginned cotton a year and the new factories will increase that to 120,000 tonnes, creating 5,000 jobs. *Reuters, Damascus*



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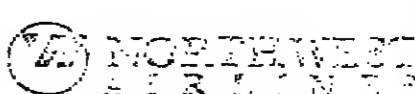
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Santer speech today will shake Tories

By Robert Peston in London and Lionel Barber in Brussels

A speech today by Mr Jacques Santer, European commission president, is likely to widen UK government divisions over Europe by calling for monetary union at the earliest feasible time.

Ahead of the speech, which will set out a five-year programme for the Commission, Mr Santer yesterday made his clearest statement to date that the UK will keep passport controls for traffic from other European Union countries, even though Mr Santer will today call for the removal of such controls.

Equally controversial for the UK government will be a statement by Mr Santer that the Commission will strive to achieve a single European currency by the beginning of 1997, subject to the Maastricht economic convergence criteria being met.

This may be interpreted by Conservative MPs as a snub to Mr Major, who has said that he does not believe that the economic conditions will be in place for monetary union by then - and that even if other countries go ahead, the UK will stay outside any combined currency until the end of the century at the earliest.

Meanwhile Mr Major yesterday moved to fill the gap in his government caused by the resignation at the weekend of Mr Charles Wardle, junior trade minister, who quit over the threat to UK border controls.

Mr Wardle has been replaced by Mr Richard Page, a low profile MP who has been given ministerial office for the first time since entering parliament in 1978.

Mr Major pledged yesterday in the House of Commons that he would take "whatever steps are necessary" to keep passport checks at British ports. When asked whether this meant the UK would be prepared to defy any future European Court ruling on the issue, a senior official said: "There is a limit beyond which I cannot step."

Despite what appears to be a veiled threat by the Government to disobey the court if necessary, Conservative Eurosceptics say they remain unhappy about the government's policy for retaining the border checks.

A group of Eurosceptic MPs who have been deprived of the party whip last night called a parliamentary motion calling on Mr Major to press for the UK's right to border controls to be raised at next year's EU intergovernmental conference.

Meanwhile, Mr Douglas Hurd, the foreign secretary, last night warned against any further centralisation of power in the EU, saying such a move would "run against the grain of our history and the instincts of our people." Speaking in Stockholm, Mr Hurd said it would be a "huge mistake" for the EU to adopt big changes at the intergovernmental conference.

Suspicion of EU superstate transcends party divisions

Five years after the UK prime minister, Mr John Major, signalled the end of the hostile approach to the European Union of his predecessor, Baroness Thatcher, his pledge to put Britain "at the heart of Europe" looks increasingly hollow.

The promise was made in the heady days after Mr Major succeeded Lady Thatcher. Nowadays, Mr Major told Thatcherite MPs recently, his aim is to avoid a "centralist" Europe, and to hang on to the UK veto.

Mr Major's approach has been changed by the military of a group of Conservative critics of the EU, usually referred to as Eurosceptics, who have cleverly exploited the government's narrow parliamentary majority.

Broadly, the Eurosceptics number between a third and a half of the 321 Conservative MPs. Their degree of hostility to the EU varies, but all reverse the rights of nation states, and oppose further erosion of the powers of the UK parliament - particularly the establishment of a single European currency.

Their concern with sovereignty is not unique. Many French voters share similar sentiments, reflected in the narrow referendum majority for the Maastricht treaty.

Opinion polls in Germany demonstrate strong opposition to a single European currency, while Denmark agreed to Maastricht only after two referendums. Norway rejected the EU, and Switzerland refuses even to join the European Economic Area.

Hostility is growing to an institution which is viewed widely as a threat to national sovereignty, writes Kevin Brown



Pomp and circumstance: an improbable alliance of politicians is prepared to advance to the defence of cherished national icons

But there are more fundamental objections, prompted by fears that the process of integration with Europe increasingly conflicts with Britain's sense of separate identity, itself a product of geography and history.

Some critics say this is a result of Britain's lack of land borders. Others cite the experience of two world wars - apart from neutrals, Britain is the only EU country not to have been defeated or occupied this century.

In private, many go further, casting doubt on the democratic credentials of EU states where democracy took root only after 1945 or, in the cases of Spain and Greece, less than

a generation ago. The Eurosceptics' influence has grown stronger since November, when nine MPs were excluded from the Conservative parliamentary party after opposing increased contributions to the EU, putting the government in a technical minority of five.

Mr Tony Blair, the leader of the opposition Labour party, has taken a more positive approach to the EU, and has sought to exploit Conservative divisions to prompt an election before 1997, the last date available to Mr Major if his government lasts.

But Labour harbours Eurosceptics, too. More than 60 Labour MPs voted against the Maastricht treaty in one or

both of two crucial votes, and 40 defied the party leadership in the November vote on EU finances.

Mr Nigel Spearing, a veteran Labour critic of the EU, says Britain is becoming sensitive to the erosion of sovereignty because people are realising that the country's largely unwritten constitution is being replaced by EU treaties.

"A programme for government from a modern Atlee [Labour UK prime minister from 1945 to 1951] would be outlawed by the treaties," he says. "No political party can advocate a programme which is contrary to the requirements of the treaties, and to that extent we have lost fundamen-

tal democratic freedoms." Eurosceptics on both sides also claim that voters were deceived by a cross-party consensus mobilised to take the UK into the European Community in 1973, and to keep it there during a 1976 referendum on membership.

This was the theme of a manifesto produced last month by eight of the nine excluded Conservatives. The document, entitled *A Sense of Country*, claimed that the electorate voted for a free trade area and found itself saddled with a superstate.

Mr Peter Shore, a former Labour cabinet minister, said this week that there was "deep suspicion that there is a virtual conspiracy not to tell the British people the truth either about what has already been surrendered or about further demands that are known to be in the pipeline."

Even Mr Paddy Ashdown, the leader of the federalist Liberal Democrats, claims that "most people see Europe as a conspiracy by the politicians and bureaucrats, from which they are excluded."

Against this background of suspicion, Mr Major has sought to steer a course acceptable to Eurosceptics and other EU states. All the signs are that the waters are becoming choppy.

Letters, Page 12

Brussels hopes to drop internal border controls

By Lionel Barber in Brussels

Mr Jacques Santer, president of the European Commission, will today call for the lifting of border controls inside the EU to fulfil the goal of a barrier-free internal market.

His declaration, in a speech to the European parliament in Strasbourg, foreshadows fresh Commission proposals for legislation later this year. It seems certain to arouse opposition in the UK, although other EU countries such as Denmark, Ireland, Sweden, and Finland also have reservations.

The Commission is preempting legal action in the European Court of Justice by the European Parliament. Members of the parliament (MEPs) have filed suit against the Commission for failing to enforce the 1986 Single European Act which provides for the free movement of goods, services, people, and capital by January 1 1993.

Commission officials in Brussels yesterday reacted with bewilderment to suggestions among Eurosceptics in Britain's ruling Conservative party that Mr Santer's support for a border-free EU was intended to undermine the government of the UK prime minister, Mr John Major.

Brussels officials do acknowledge that the timing of Mr Santer's speech was unfortunate because it comes four days after Mr Charles Wardle, a junior trade minister, resigned from the UK government after raising the alarm about the relaxation of the EU's internal checks.

Seven EU countries - Belgium, France, Germany, Luxembourg, the Netherlands, Spain and Portugal - are soon to scrap all document checks on travellers over a three-month period.

Under the so-called Schengen agreement, the lifting of controls will apply not only for EU citizens flying within the signatory states, but also to visitors to Europe from third countries who have gained entry to the EU through a joint visa.

The Schengen states and the European Commission argue that relaxation of internal borders is more than compensated by the strengthening of external EU frontiers to prevent the entry of undesirable aliens, economic refugees or other asylum-seekers.

Because it is worried about the effectiveness of the new external curbs, Britain has not joined Schengen. Italy has yet to sign up because it has still to introduce laws to protect computer files, while Greece does not yet have the necessary technology. Austria has observer status.

Denmark, Finland and Sweden have a special problem with Schengen because they do not have border controls with

If official figures are to be believed, the UK does not have an immigration problem, John Authers writes. Home Office data show a period of great stability in a policy which has frequently provoked political controversy since 1945. The total number of immigrants in 1993, the last year for which official figures are available, was given as 55,640, only a slight increase on 52,790 in 1992 and 53,900 in 1990.

The number of immigrants who have been removed, either by deportation or following formal warnings, also remains stable and quite low, and has stood at about 6,000 each year so far this decade.

"The problem lies in the accuracy of the data," immigration officials claim that these figures "massively" understate the scale of illegal immigration, which by definition cannot be included in the figures.

Once illegal entrants are included, the Immigration Service Union believes the total influx to the UK each year would be tripled. Mr Martin Slade, deputy general secretary, said: "The biggest problem is eastern Europeans. They have ready access to the land mass of Europe." He said the UK's problems had increased since a "tight touch" approach to intra-European arrivals in 1993.

Norway whose voters rejected EU membership in last November's referendum.

"Reinstating frontier controls with Norway would be politically sensitive in Scandinavia," a Brussels legal expert explained. "On the other hand, lifting all controls would give Norway *de facto* membership of Schengen."

In 1985, Baroness Thatcher, then UK prime minister, signed the Single European Act. But she obtained a declaration in the treaty which reaffirmed the right of member states to take measures to control immigration from third countries, and to combat terrorism, crime, drug-trafficking and illicit trade in art and antiques.

In the UK, these words are often described, misleadingly, as a treaty opt-out. Legal experts in Brussels yesterday said the 1985 declaration had no juridical force and was subordinate to the treaty requirement supporting freedom of movement of people.

Moreover, the declaration may have been weakened by the UK government's signing of the 1991 Maastricht treaty which reaffirmed the right to freedom of movement, the experts said. However, the Commission's directive, planned this year, must still be approved by the Council of Ministers, where the UK has a veto.

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الرياض 15 فبراير 1995

Names win £210m interim payout

By Ralph Atkins, Insurance Correspondent

Some of the worst-hit Lloyd's of London members yesterday won a £210m (\$327.5m) interim award, an amount which was higher than expected.

The High Court ruling in favour of Gooda Walker Names - the individuals whose assets have traditionally supported the insurance market - may prove a setback to hopes at Lloyd's of resolving the many pending cases out of court.

It was hailed by the Gooda Walker Action Group, whose 3,000 members lost heavily as a result of natural catastrophes

in the late 1980s. Mr Philip Rocher, of Wilde Sapte, the group's solicitors, said the judgment was "a significant step" towards winning full compensation for losses which the High Court said in October

LLOYD'S
LLOYD'S OF LONDON

resulted from "culpable" and "unjustified" risks by the now-defunct Gooda Walker agency. A hearing on total damages for Gooda Walker Names, which the court indicated would be "substantially higher" than the £210m, will start on March 27.

The victory was marred, however, by uncertainty about whether even the interim award can be met from "errors and omissions" insurance policies taken out to cover against negligence awards by the 71 professional agencies sued.

Clyde & Co, solicitors representing the agencies' insurers, said some policies were void while others were inadequate. About 20 of the agencies involved are in liquidation.

A decision by the High Court to allow the insurers 14 days to pay means that Gooda Walker Names will not escape a rule change which Lloyd's plans to implement on Monday.

It would require damages to be used to settle Names' debts at the insurance market. Unless ruled unlawful - and a legal challenge is expected - that could take more than £50m of yesterday's award.

Lloyd's last night restated that a settlement is the only fair way of ending all this litigation. But the size of the interim payment may make it harder for Mr Peter Middleton, Lloyd's chief executive, to forge a settlement between Names and agencies being pursued for compensation.

Mr Michael Deeny, Gooda Walker Action Group chairman, said: "It strengthens our

hand in negotiations, but I'm not closing the door."

Some Names will be encouraged to continue legal action by the court's ruling that the agencies' insurers must add interest to damages awards if not paid promptly. That might reduce the incentive for the insurers to delay legal proceedings via repeated appeals.

Underlining growing tensions between various Names groups, a coalition of action groups with cases still in the legal pipeline have appealed this week against an earlier High Court decision that damages should be awarded on a "first come, first served" basis.

Protests cut live calf trade by 30%

Protests have cut the number of live calf exports from the UK to mainland Europe by 30 per cent and halved the number of sheep exports in recent weeks, the Meat and Livestock Commission, the official meat promotion agency, said yesterday, Alison Maitland writes.

Calf prices are down as much as 25 per cent on last year as a result. However, sheep prices are much less affected because this is not the season for live sheep exports. The industry body said: "It seems likely that live export volumes in future years will be significantly lower than the peak levels of 1993." Exports of calves and sheep that year were worth £185m (\$287m).

The impact of the animal welfare campaign was revealed as Mr William Waldegrave, the UK agriculture minister, discussed the controversy in London with his French counterpart, Mr Jean Pisch, who is also president of the European Union Agriculture Council. The issue will be discussed at next week's agriculture council in Brussels.

Commodities, Page 23

UK NEWS DIGEST

Firefighters cancel trade trip to Iraq

A British company has cancelled its participation in a trade delegation to Iraq following the disclosure that it was planning to discuss the provision of firefighting equipment for Iraq's petrochemical and oil industries. The company, Angus Fire, which is part of industrial conglomerate Williams Holdings, had planned to discuss the supply of foam liquid and related hardware for these sectors.

Williams Holdings said yesterday that Angus Fire had obtained a communication licence covering firefighting equipment only in general terms. It is understood that the company had interpreted this as an unconditional licence with which to discuss future contracts with the Iraqis.

Under United Nations sanctions, communication licences limit UK companies to discussing with Iraq contracts covering food, medicine, and other essential humanitarian goods. The Department of Trade and Industry in London said last night it was not prepared to comment on whether it had issued Angus Fire with a communication licence. *Jimmy Burns*

Train drivers' union to ballot over pay and staffing

Aslef, the union representing train drivers, is balloting its 15,000 British Rail members on pay, manning and pensions issues. The move comes as the union's left-dominated executive prepares for a summit conference with full-time officials on February 27 to reassess the union's plan to confront the privatisation process.

Union members will be asked in the ballot to approve industrial action if they are offered a "substantial" pay rise above the rate of inflation when their wage negotiations begin shortly. *Robert Taylor, Employment Editor*

Eurotunnel summer fares are set to compete with ferries

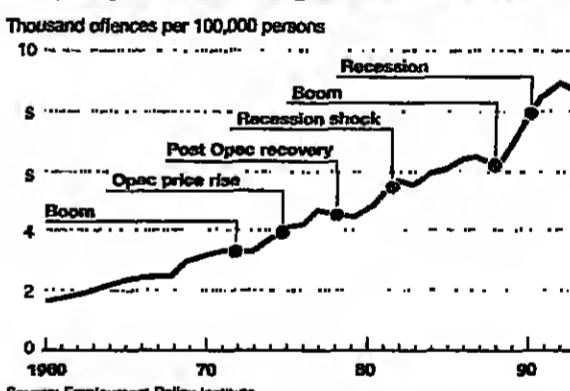
Eurotunnel yesterday announced spring and summer fares for its Channel tunnel shuttle trains slightly below the rates quoted by the ferry companies in their brochures. It said it was out to compete with the ferries but did not want to trigger a price war. Fares range from £115 (\$179.40) for a five-day return for a car and passengers to £306 for a standard return. These compared with ferry fares from £124 to £330. The Eurotunnel fares will apply from March 31 when the company will switch to a full turn-up-and-go service from the present arrangement which requires pre-booking. Eurotunnel will double the length of its trains next month.

Meanwhile European Passenger Services, which operates the Eurostar passenger-only trains between London, Paris and Brussels, said its Brussels service had attracted fewer people than expected. *Charles Batchelor, Transport Correspondent*

Research linking lack of jobs to crime is challenged

Government denials of any causal links between crime and unemployment are challenged today by Dr John Wells, a lecturer at Cambridge University. His report, published by the Employment Policy Institute, an independent think-tank, questions government findings and claims that the evidence linking crime and joblessness is much stronger than supposed. Dr Wells said Home Office studies had neither taken adequate account of the fact that unemployment was a "lagging indica-

Property crime in England and Wales



tor" of conditions in the economy, nor adjusted properly for inadequacies in official statistics. "On closer examination, changes in crime can be linked to the state of the labour market," he said, declaring that crime against property decreased in periods of economic buoyancy and increased during recessions. *Lisa Wood, Employment Staff*

Missing lord's will disclosed: The will of Lord Lucan, who disappeared more than 20 years ago and whose death has never been established, shows his property worth less than £150,000 when he was last seen. Lord Lucan is still wanted by Scotland Yard for the murder of his family's nanny and the attempted murder of his wife. He is a descendant of the Earl of Lucan who in the Crimean war gave the order for the fateful charge of the Light Brigade.

Man jailed on virus charges: A man accused of introducing computer viruses was jailed in court in Plymouth, south-west England. Mr Christopher Pile, 26, faced five charges of accessing a computer without authorisation to facilitate crime, and five of modifying computer material without authorisation. He is believed to be the first person to face such charges.

£700m expansion for phones group

By Alan Cane

Cellnet, the second-largest UK mobile phone company, plans to spend up to £700m (\$1.085bn) over the next three years to create what it claims will be the world's most advanced cellular phone network.

Cellnet, owned jointly by British Telecommunications and Securicor, has for the past decade lagged behind Vodafone as the UK's largest mobile phone operator. The most recent figures suggest that Cellnet is now growing faster than its larger rival and is set to overtake it in total subscribers this year. Vodafone has 1.64m subscribers while Cellnet has 1.58m.

Cellnet's new services will include an "electronic assistant" with the ability to locate subscribers anywhere and at any time, while screening out unwanted calls. The company is also examin-

ing better ways of screening potential customers for credit-worthiness. Senior executives believe potential subscribers are being turned down because existing credit-checking methods are too insensitive.

The first stages of the investment programme were initiated this week with the award of contracts, worth £28.5m in total, to Motorola of the US and Ericsson of Sweden. Ericsson's contract, worth £22m, is for advanced switching equipment needed to support flexible billing and advanced network management.

The Motorola contract is worth £6.5m and will provide increased depth of coverage in southern England.

At the conclusion of the programme, Cellnet will have added 1,400 base stations - the units that receive and transmit transmissions from mobile phones - to its existing 1056-strong network.

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BUSINESS AND THE ENVIRONMENT

Plastics waste strikes oil

Michael Lindemann on German rivalries in the recycling sector

The waste recycling plant in the Ruhr town of Bottrop does not exactly suggest new technology. Situated on waste ground in a particularly desolate corner of the Ruhr conurbation, the mass of twisted pipes and levers seems more an echo of the past than a portent of the future.

Yet for almost a year the plant has been converting assorted plastics waste into oil which is blended in a refinery next door to produce high-quality oil-based products.

The plant was first used during the latter stages of the second world war when scientists tried desperately to convert coal into petrol, hence the name Kohleöl-Anlage, or coal-oil plant. They succeeded - but the process was prohibitively expensive and produced minimal quantities. In the early 1970s, during the oil crisis, scientists tried again but costs remained too high.

Since last April the Bottrop plant has been using not coal but 40,000 tonnes of synthetic materials waste collected by the Duesen System Deutschland (DSD), the company set up to create the Kreislaufwirtschaft or so-called full-circle economy where as much waste as possible is recycled into raw materials.

The synthetic waste - from plastic bags, yogurt cartons and computer casings - is mixed with heavier oil residues before water is added. In the process (hydrogenation) the chemical compounds are broken up to produce a synthetic oil which is piped to the next-door refinery.

To turn waste into oil costs about DM800 (£336) per tonne - considerably more than the expense of burning it. However, managers at the Bottrop plant believe they can reduce costs to around DM450 if they can increase the capacity. It seems they are not alone.

BASF, one of Germany's biggest chemicals makers, has built a similar plant at its headquarters in Ludwigshafen. Instead of adding water, it heats the waste to create a mixture of liquids and gases which are then distilled to produce a variety of raw materials such as butane,

which can be used to manufacture other chemical products. One kilogram of waste yields 900g of reusable raw materials, the company says.

"The beauty of this process is that everything that comes out can be immediately reused at the plant in Ludwigshafen. We do not have to transport it anywhere," says BASF.

But the butane and other products distilled are still more expensive than if BASF bought them straight from the refinery.

The company has so far spent DM40m to build a plant that converts 15,000 tonnes of waste. Although it has so far made no money, the law in Germany says synthetic waste must be collected and BASF wants to become one of the main recycling sites.

It has offered to build a plant that can handle 300,000 tonnes of waste - if it receives a subsidy of up to DM380 per tonne from the DSD.

The DSD, however, is not inclined to give BASF all the waste it wants. The company estimates that it will have about 530,000 tonnes of synthetic waste to dispose of this year and is hoping to share this out among up to five different plants. "For the sake of competition we want to ensure that there are as many players out there as possible," a DSD spokeswoman said.

Klöckner Werke, the steel plant in the northern German city of Bremen, is likely to receive around 80,000 tonnes of waste which it will use to make steel.

RWE, Germany's biggest electricity producer, has two plants at which it hopes to make synthetic gases and oils from the plastics collected by DSD. BASF is likely to receive only 150,000 tonnes, or half of what it pitched for.

DKR, the DSD offshoot responsible for recycling synthetic wastes, is negotiating with the companies that have the available technology.

Who gets exactly how much is still unclear. However, the fact that several new recycling plants have come on line over the past year suggests competition to recycle synthetic waste is heating up.

What do an Ecuadorian tree frog, poison gas and compact discs have in common? The answer is chlorine, one of the most widely used chemicals and the target of environmental activism.

Greenpeace, the environmental pressure group, is leading the campaign for a "chlorine-free" world. It stresses that chlorine is a toxic gas, which has been implicated in some of the world's biggest chemical disasters, such as at Seveso in Italy and Bhopal in India.

So aggressive has the attack on chlorine become that leading producers, headed by Dow, the world's biggest manufacturer, Solvay, Bayer and ICI, are mounting an unprecedented public relations drive to trumpet chlorine's merits.

The industry fears a confrontation similar to that over the use of ozone-depleting chlorofluorocarbons (CFCs). Manufacturers feel they lost touch with public opinion in trying to defend products that had become widely criticised.

At a conference in Brussels last week, Euro Chlor, the federation of leading manufacturers and users, acknowledged that the industry had been slow over CFCs. Delegates agreed that companies should not make the same mistakes again.

The manufacturers argue that the point is to find a balance between ecology and economy. The environmentalists counter that chemicals companies are too much on the side of economy and that people's safety has to be the priority.

The companies and Greenpeace are aiming their lobbying at environmental regulators and, to a lesser extent, the public. While Greenpeace believes the industry will be compelled to adopt changes only through regulation, the chemical companies want to persuade regulators that voluntary agreements are adequate.

Greenpeace appears to have the upper hand in terms of winning over public opinion. Although it lacks the financial muscle of the chemical giants, its campaigning stunts have won wide publicity.

Regulators are an easier target audience for the industry than the public. Chemicals plants are big, dirty and widely seen as dangerous. Attempts by managements to present a human face have been undermined by accidents, while claims of environmental concern are usually met with cynicism.

Many chemicals executives are poor communicators. "They may be great scientists, but there are relatively few who perform well in front of a non-specialised audience," admitted one of the conference organisers in Brussels. Hence the focus on regulators rather than a broader charm campaign. The drive to defend chlorine will be difficult. Although it is widely

The chlorine industry is out to prove that the benefits outweigh the disadvantages, writes Haig Simonian

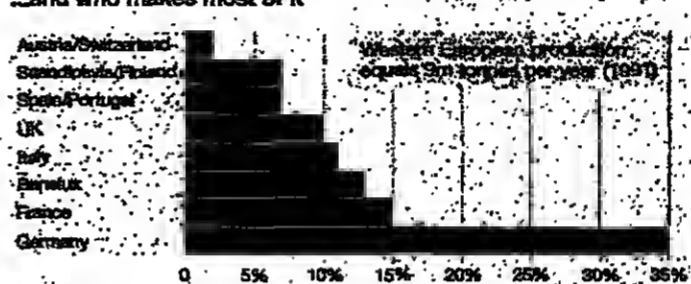
Economy v ecology



How European industry uses chlorine

Per cent	1989	1990	1991	1992	1993	
Elementary	7	5	4	3	2	Paper bleaching
Solvents	5	5	5	5	5	Dry-cleaning
Other uses including processing	13	13	13	13	13	Industrial processes
Polymers	58	57	56	55	54	PVC
Inorganics	13	13	13	13	13	Polyurethanes
						Flocculants

and who makes most of it



Source: Euro Chlor

used, few chemicals have so notorious a record.

Most familiar for its use in water treatment, it is also an important intermediary in making thousands of other compounds. The best-known is polyvinylchloride (PVC), the second most produced polymer after polyethylene. Chlorine is also an essential intermediary in a range of sophisticated plastics used in products as diverse as car bumpers, pipes and compact discs. It also features in many pesticides, bleaches and pharmaceuticals.

But chlorine has an unenviable record. First world war veterans recall the nightmare of the poisonous yellow-green chlorine clinging to their trenches. As a toxic gas heavier than air, even casual exposure to chlorine is undesirable. Visitors to electrolysis plants where chlorine is made are issued with breathing apparatus for emergencies.

In addition to concern about the gas itself, there is a problem with emissions in chlorine production. Most chlorine in Europe is still produced by mercury electrolysis, which involves passing an electric current through brine. The process releases large amounts of chlorine, but also small quantities of highly toxic mercury, emitted as waste. Although mercury emissions are 85 per cent below the levels of 15 years ago and the mercury method is being replaced by non-polluting membrane technology, mercury electrolysis still accounts for about 70 per cent of western Europe's chlorine output.

Problems with by-products are not new. In the late 1970s, chemicals companies were put under the environmental microscope after reports of dangers in polychlorinated biphenyls (PCBs) - chlorine by-products which were banned after being found accumulating in the food chain. The pesticide DDT is another chlorine-related compound that has become infamous and is no longer used in the developed world.

The issue of emissions has become particularly sensitive ahead of this year's Fourth North Sea Conference in Denmark in June. Pollutants are likely to draw sharp criticism

from senior delegates from European countries bordering the sea.

Chlorine is also implicated in cancer. Burning chlorine-containing products, such as PVC, at certain temperatures releases dioxins, a family of 210 chemical compounds, 17 of which are regarded as highly toxic. The worst are alleged to be carcinogenic and even to cause birth defects. Although scientific opinion is still divided, the US Environmental Protection Agency is reviewing the potential risks.

The industry argues that processes are now safer and that by-products that have been proved to be hazardous have been withdrawn. With so much against it, chlorine manufacturers are eager to publicise the benefits of their product.

Hence the Ecuadorian tree frog. It is one of the few animals which produces chlorine naturally. At a press conference next week, ICI's chlorine subsidiary will use it to portray the natural and healthy aspects of chlorine.

The frog, which produces a chlo-

rine compound as a pain killer, is part of a campaign to stress that society depends on chlorine. "Many end products which use chlorine in the manufacturing process don't contain any chlorine at all," says René Scheffers, chairman of Akzo Nobel's Base Chemicals division.

The industry wants to drive home the message that the benefits of chlorine outweigh the risks. About 296,000 jobs (out of a total of around 2m) in European chemicals depend on chlorine, according to Baron Daniel Jansen, chairman of the executive committee of Solvay. "With sales of about DM300bn (£125bn), about half the European chemicals industry depends on chlorine," he says.

Alternatives exist in many cases, but are not always as effective, the industry claims: some can be used to disinfect water, but its protection is more limited. Alternative intermediaries exist to make complex polymers, but they often present environmental risks that are as great, if not greater, than chlorine. And burning chlorine-containing products does not release dioxins if the temperature is high enough and the incinerator is fitted with adequate filters.

The argument about mercury electrolysis highlights the industry's cost-benefit strategy. Euro Chlor estimates that about 12 tonnes of mercury a year are emitted through chlorine electrolysis. That compares with around 20,000 tonnes a year occurring naturally, says Barrie Gilliat, the chairman of Euro Chlor's technical committee. By contrast, it would cost about DM10bn to replace mercury electrolysis with membrane technology. "Does it make any sense to spend DM10bn to eliminate 12 tonnes of mercury when nature and the rest of the world make 18,955," he asks.

Dieter Becher, a board member of Bayer and chairman of the German Chemical Federation's environmental committee, says the industry recognises the need to act responsibly. Processes have been eliminated in cases of documented environmental risk, he says. He believes supervision should be through voluntary agreements, not regulation. The industry has proposed four agreements "for a balanced process between economy and ecology". These include an accord to cut mercury output and better recycling for chlorinated solvents, such as dry-cleaning fluid, and plastics like PVC, which consumes a third of Europe's annual chlorine output.

Critics remain unconvinced. Bob Edwards, in charge of Greenpeace UK's chlorine-free campaign, says: "The only real way industry will move is under regulatory pressure. This has been proved over and over again. When there is pressure to reduce outputs, industry will always find alternatives."

FT
BY INVITATION

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ARTS

Television/Christopher Dunkley

Why the BBC should be bourgeois

Most of those working in broadcasting live in big cities and in Britain the most important centre by far is London. Perhaps that is why so many broadcasters honestly believe, as they keep telling us, that "Britain is now a multicultural society", and that black and Asian people are desperately under-represented on television. The truth is that Britain is a monocultural society which has recently experienced the development of a few multicultural cities, notably London. In some London boroughs black and Asian people now make up 20 per cent of the population, but in Britain as a whole the figure is only about six per cent. In most parts of Britain there are no black or Asian people, but considering what a small proportion of the population they form they have been wonderfully, and hearteningly, successful in television.

From Trevor McDonald and Motra Stewart to Lenny Henry and Gary Wilmot, from Art Malik and Saeed Jaffrey to Stuart Hall and Shyama Perera they have flourished in all programme divisions. Black and Asian people are now dominant in many television sports

including boxing and athletics. Bad as England's reputation in Test cricket may be today, it would be much worse without Lewis, de Freitas and Malcolm. Black music and black street fashion are major elements in pop music and youth programme strands. "African Americans" such as Prince and Whitney Houston add to Britain's own familiar black role models in this sphere. Even areas such as grand opera and rugby union which used to be seen as white redoubts have changed. Jesse Norman and Willard White are frequently seen singing on screen, and it was impossible to watch England's splendid victory at Twickenham over France on BBC1 without noticing the central roles played by Ugochi and Gaseot.

And yet, according to a leak in this week's Sunday Times under the startling headline "Birt tells the BBC we're boring, biased and bourgeois", the long awaited Programme Strategy Review to be

announced by the BBC later today will report black and Asian viewers saying that they feel "excluded". Consequently the BBC will undertake a long term strategy to woo ethnic minorities. According to this leak (which could, of course, have the emphasis wrong, though it quotes verbatim so this seems unlikely) children dislike the programmes the BBC makes for them - "old fashioned and worthy, and more in tune with their parents' idea of traditional children's programmes" - and there is hostility in Scotland, Northern Ireland and Wales to the BBC's London bias. So efforts will be made to attract young people and "those outside the home counties". We are told that the report notes the success (meaning high ratings, presumably) of ITV's mid evening drama series, and says that BBC music and arts programmes will become "more populist in tone".

It sounds like the antithesis of Rethinkism but very much in line

with ideas which have spread like wildfire from the US, where contempt for the culture of "dead white European males" is now widespread, and from Britain's own media-studies centres, which say that the time has come to abandon elitist ideas of "excellence".

When broadcasting began in Britain, within living memory, there was a broad consensus among educated people as to what constituted excellence. The Rethink notion was that if you continually aimed your programmes slightly above the expectations of the audience you would draw people up to greater things: those who started out listening to the Light Programme would graduate to the Home Service; those who began by thinking the Home was their natural niche would be led up to the Third Programme. No doubt it was somewhat patronising and the catalogue of excellence both rigid and exclusive.

However, British broadcasting now seems to be scampering faster and faster in the opposite direction, down the road marked "relativism" towards the place where the assertion that anything is "better" than anything else - that Bach was a better composer than Gary Glitter - is considered superfluous and unacceptable. The idea now seems to be to aim well below the expectations of the more demanding members of the audience in order to maximise ratings. Assuming The Sunday Times has it right, the central message of today's report would seem to be that the BBC is still "super-serving" the southern middle classes. Yet that, surely, is precisely what it should be doing. Britain today is a predominantly middle-class society, and the population is more densely concentrated in southern England than anywhere else.

This demographic argument

experimental programmes. We have ITV which, thanks to a dreadful piece of legislation in the Thatcher era, now concentrates on the maximisation of ratings by way of game shows, soap operas and formula drama, most of which are instantly forgettable. This being so, the most vital function for the BBC is not to provide imitations but to do what it has always done better than any other broadcaster in the world: "super serve" the intelligent middle-class viewer and listener.

Doubtless we shall be told that this is precisely what they are doing and will continue to do, and that the recommendations following the strategy review will be merely details around the edges. But we have already noted the increase in tabloid television, seen the BBC's willingness to go ambulance chasing, noticed the change in children's programmes from children imitating broadcasters to broadcasters imitating children, and watched glumly as the BBC tried to match ITV's drama ratings by taking Inspector Morse to France for A Year in Provence. Now a growing body of middle-class viewers and listeners clearly feels that while it wants to keep faith with the BBC, the converse is much less certain.

Theatre/Alastair Macaulay

The Duchess of Malfi

I have walked around the ruins of the real Duchess of (A)Malfi's palace. Trees and wild flowers grow there now, and the views of the Mediterranean all around the promontory beneath are spectacular. Further down the hillside - astonishing to say - is the hotel where Ibsen finished *A Doll's House* and Wagner worked on *Parsifal*. Neither of them would have known Webster's play (c.1613) about the duchess (Giovanna of Aragon) in life though unnamed in the play, for it only returned to repertory in 1892. Today, however, we can expect to see a major revival of it about every five years. But when, I wonder, will we ever see Lope de Vega's play of the same subject (*El Mayorazgo de la Duquesa de Amalfi*), which Webster may have read?

Our latest interpreter of Webster's Duchess is Juliet Stevenson, in a Greenwich Theatre production that is said to be aimed, in due course, at the West End. As always, she manages at the same time to be wholly natural and yet also to be heartbreakingly febrile. She is never locked into one single emotion, but keeps revealing the gripping interplay of contrasting thoughts and feelings. This is most remarkable in her first big scene, when, alone with Antonio, she takes the initiative to woo him and to propose marriage. Here, by turns, she is despondent, hesitant, humorous, eager, imperious, and embarrassed by her own power. We have already seen the canny but watchful way she has of physically petting her monstrously possessive twin brother Ferdinand, and how she must kneel to kiss the hand of her senior brother, the Cardinal. Thus the ease she finds with Antonio - at last a man she can command, to his and her delight - becomes all the more absorbing.

But though this Duchess wields power without strain, she has no especial distinction of spirit. Her words refer often to princely rank, and reveal the high refinement of her mind, yet her manner, of action or of speech, reflects no such consciousness. She brands no lines onto our memory, and she never again shows such energy as in that early scene.

Simon Russell Beale, who plays her quasi-incestuous twin, Ferdinand, sometimes does utter lines with memorable power - e.g. the coolly scornful "Damn her", and the biblically mag-nanimous "You both died in the field" to the brother and henchman he has

just murdered in his madness. He brings his role a dark, mordant, life-hating cruelty, a kind of tragic version of Rowan Atkinson's Blackadder. Robert Glenister, as the henchman Bosola (the play's most complex role), has a certain ferrety meanness. But Bosola is an intellectual. Though he is trying to climb the social ladder by means fair or foul, he shows a clear moral discernment of good and evil, and the temperament to which he reverts is always melancholy: all of which was absent from Glenister's restless, rapid, tight interpretation. As for the Cardinal, Robert Denham demotes him to the lower middle class. And when he speaks for the first time about Hell - in which this character has so carefully earned a place - his casual manner makes the audience laugh.

Some of the smaller roles have good moments. I like the integrity of Joe Dixon's Antonio, the intelligence and glamour of Melanie Jessop's Julia, the personable loyalty of Ashley Russell's Delia. But there are several false or inconsistent notes, like Julia's melodramatic gesture in dying and Delia's jollity in the echo scene. Why does the Duchess turn to Antonio so publicly when we know she wishes their marriage to remain unsuspected? Why does Antonio shout at the top of his voice when he is secretly present in her bedchamber? And so on.

The answers lie with the director, Philip Franks. Well, he keeps the play's narrative absolutely taut. He charts everyone's stance precisely. He achieves a variation of tone throughout. But too many lines are gabbled or mumbled, and too many scenes are lively without being actually very interesting. Though everyone plays to each other very correctly, it is hard really to believe that these characters all inhabit the same world. Various small cuts (including several minor roles) reduce the play to about three hours and simplify the plot, but they also narrow the scale of the drama. Tom Piper's Elizabethan/Jacobean designs are only superficially attractive; they provide a general sense of time and place, but do little to heighten the play's mood or clarify the production's intentions. By no means a dull evening, it is a surprisingly lightweight one. This *Duchess of Malfi* is a revenge tragedy without stature and without terror.

Greenwich Theatre until March 18.



Joe Dixon, Juliet Stevenson and Jane Galloway in Philip Franks' new production

Music in London/David Murray

Tippett and Vengero

Sir Michael Tippett's 90th birthday celebrations continue in dense profusion. Beyond the London Symphony series of homages and the Coliseum's fine *King Priam* revival (last performance Friday next), there is an overflowing fringe as well.

At lunchtime on Thursday, for example, there was a (free) Barbiere concert by the Guildhall School's excellent "symphonic wind ensemble" under Peter Gane. "Mosaic", the first movement of Tippett's Concerto for Orchestra - just post-*Priam*, and very similar in style - whetted one's appetite for the complete work tonight. A "new" Tippett was stranger. *Triumph*, a concert-band collage of snippets from his oratorio *The Mask of Time* (due at the Barbican on Sunday week), proved in the small print of the programme-notes to have been "prepared by Merion Bowen under the composer's direction".

The snippets, many quite substantial, have been partly re-scored and linked by partly new material - by whom exactly, only Bowen and Tippett know. As Tippett grows ever more ancient and venerable, the Tippett sub-industry grows more and more prolific. Though the result here offered colourful, noisy reminders of the *Mask*, it was doubtful whether it did anything more. Robert Saxton's new *Ring, Time* (as in "the only pretty...") was unambiguously a fresh piece, with much of the soft clotted-note radiance that has been a feature of recent Saxton, and a dense section with quasi-Elizabethan echoes - forward- and backward-looking at once, as is his wont.

On Sunday we had Colin Davis, the London Symphony and three of their principal players in Tippett's richly fanciful Triple Concerto of 1979. The solo violin, viola and cello were Alexander Barantchik, Edward Vengero and Henry Welsh, all of them characterful and passionate in their several big cadenzas. They helped enormously to suggest an over-

all direction for the whole work. The connections between the teeming ideas, scored for *farouche* effects, remain pretty intuitive, but as usual with Tippett sound potentially convincing while they go on; there were ravishing passages aplenty in this devoted reading. It is all desperately English, and was therefore nicely complemented by Davis's strapping, lusty, brass-heavy account of Elgar's First Symphony.

On the same day, the violinist phenomenon Maxim Vengero (Siberian-born, not yet 21) made another triumphant appearance at the Wigmore Hall with Iamar Golan, whose pugnacious brilliant insights make it impossible to think of him as a mere accompanist. He seems a heaven-sent partner for young Vengero, who tends to apologise for his staggering virtuosity - always kept under restraint until the second halves of his programmes, when he unleashes his fabulous gifts - by deeply respectful, selfless Classical playing in his first halves.

Golan challenges him to do more than that. Here the little Mozart Sonata K.206, for piano "with violin accompaniment", got elegantly forward, pointed playing, and Beethoven's "Spring" Sonata fairly crackled with nifty life. We still had to wait until after the interval for Vengero to seize the bit between his teeth, tearing brilliantly into the Prokofiev Sonata in D (originally for an innocent flute: better thus, I think, but one is not going to argue with Vengero) and ten of Shostakovich's very fantastical op. 34 piano-Preludes in tingling transcriptions by Dmitri Tsyganov.

Their encores were of course breathtaking, and sometimes extravagantly funny. In such stuff, Vengero and Golan are peerless. Some day soon, Vengero's personal grip on the Classical repertoire will live up to his exuberant standards in frank violin-tousle, and then he will be memorable indeed. Meanwhile, he is extraordinary anyway.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERTS
Centugebouw Tel: (020) 671 345
Royal Concertgebouw Orchestra: soprano Barbara Hendricks, violin, Barber and Copland; 8.15 pm; Feb 18, 19 (2.15 pm)
PERA/BALLET
at Muziektheater Tel: (020) 551 122
Mazepa: by Tchaikovsky. A theatrical opera production conducted by Harmut Haenchen and acted by Richard Jones; 7.30 pm; Feb 21

BERLIN

ERBA/BALLET
Ursula Oper Tel: (030) 3 4192 49
Das Rheingold: by Wagner. Conducted by Rafael Kubelick de Burgos, production by Götze Friedrich; 7.30 pm; Feb 18
Die Meistersinger von Nürnberg: Wagner. Conducted by Rafael Kubelick de Burgos, production by Götze Friedrich; 5 pm; Feb 19

El Maskenball: by Verdi. Conducted by Rafael Kubelick de Burgos/Sebastian Lang-Lessing, produced by Götze Friedrich; 7.30 pm; Feb 18
Faust: by Gounod. Conducted by Lawrence Foster/Heinrich Hollreiser/Jiri Kout, production by Jean-Pierre Ponnelle; 7 pm; Feb 15, 17
Oedipus: by Rihm, conducted by Peter Kuschel, produced by Götze Friedrich; 7 pm; Feb 21 (7.30 pm)

LONDON

CONCERTS
Barbican Tel: (0171) 638 8891
Tippett: Visions of Paradise. Sir Colin Davis conducts the London Sinfonietta with pianist Stephen Kovacevich and soprano Faye Robinson to play Beethoven and Tippett's, *Symphony No 3*; 7.30 pm; Feb 17
Sorry I forgot Valentine's Day: if you missed Valentine's day, Paul Wynne Griffiths conducts the London Concert Orchestra and pianist Sarah Beth Briggs to play another evening of romantic classics; 7.30 pm; Feb 18
Tippett: Visions of Paradise. Sir Colin Davis conducts the London Sinfonietta in a programme that includes a world premiere of Tippett's, *The Rose Lake*; 7.30 pm; Feb 19
Festival Hall Tel: (0171) 928 8800
Novosibirsk Philharmonic Orchestra: with pianist Paul Crossley and bassist Anatoli Safulin. Arnold Katz conducts Prokofiev, Shostakovich and Rachmaninov; 7.30 pm; Feb 20
GALLERIES
Tate Tel: (0171) 887 8000
William de Kooning: a major

exhibition featuring over 70 paintings drawn from private and public collections worldwide; from Feb 18 to May 7
OPERA/BALLET
English National Opera Tel: (0171) 632 8300
King Priam: a new production of Tippett's opera that opens the London festival - Tippett: Visions of Paradise, to celebrate the composer's 90th birthday; 7.30 pm; Feb 17
Madama Butterfly: Puccini's opera, originally directed by Graham Vick; 7.30 pm; Feb 16
Rigoletto: Jonathan Miller's updated version of Verdi's opera where the duke is a mafia boss; 7.30 pm; Feb 15, 18
Royal Opera House Tel: (0171) 340 4000
Der Rosenkavalier: by Strauss. Conducted by Andrew Davis, directed by John Schilling. Soloists include Felicity Lott/Anna Tomowa-Sliowa as Princess von Werderberg; 6.30 pm; Feb 15, 20
La Bohème: by Puccini. Conducted by Simone Young/ Paul Wynne Griffiths, directed by John Copley. Soloists include Angela Gheorghiu/ Amanda Thane as Mimì and Maria McLaughlin/ Judith Howarth as Musetta; 7.30 pm; Feb 16, 21
The Prince of the Pagodas: by Britten. A Royal Ballet production choreographed by Kenneth MacMillan opens a Benjamin Britten 'mini festival' at the Royal Opera; 7.30 pm; Feb 17
THEATRE
National, Olivier Tel: (0171) 928 2252
The Merry Wives of Windsor: by Shakespeare. Terry Hands directs

his first production at the National. With Denis Quilley as Falstaff, Brenda Bruce as Mistress Quickly and Geraldine Fitzgerald as Mistress Ford; 7.15 pm; Feb 16, 17, 18 (2 pm); 20
Shaftesbury Theatre Tel: (0171) 379 5395
The Three Lives of Lucie Cabrol: adapted from John Berger by Mark Wheatley and Simon McBurney, who also directs. Theatre de Complicité presents this violent love story; 7.30 pm; to Feb 25 (Not Sun)

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tetzlaff plays Beethoven: Esa-Pekka Salonen conducts The Los Angeles Philharmonic with violinist Christian Tetzlaff to play Beethoven, Schoenberg and Stravinsky; 8 pm; Feb 15, 17, 18 (2.30 pm), 19 (2.30 pm)

NEW YORK

OPERA/BALLET
Metropolitan Tel: (212) 362 6000
Cavalleria Rusticana / Pagliacci: by Mascagni/Leoncavallo. Production by Franco Zeffirelli, conductor Christian Bades; 8 pm; Feb 16
Il Barbiere di Siviglia: by Rossini. Produced by John Cox, conducted by David Atherton; 8 pm; Feb 18 (1.30 pm)
La Traviata: by Verdi. Produced by John Cox; 8 pm; Feb 17
Simon Boccanegra: by Verdi. A new production directed by Giancarlo del Monaco; 8 pm; Feb 21

Turandot: by Puccini. Produced by Franco Zeffirelli, conducted by Neito Sant; 8 pm; Feb 15, 18, 20

PARIS

CONCERTS
Champs Elysées Tel: (1) 47 23 37
21/47 20 08 24
Orchestra of the Champs Elysées: with soprano Solita Isokoski, alto Birgit Remmert and tenor James Taylor plays Beethoven under the direction of Philippe Herreweghe; 8.30 pm; Feb 15
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
Myung-Whun Chung: conducts the orchestra and choir of the Paris National Opera to play Beethoven, 8 pm; Feb 21
GALLERIES
Galerie Schmitt Tel: (1) 42 80 36 36
From Delacroix to Matisse: exhibition including the works of Delacroix, Matisse, Picasso and Degas; to Apr 13
Georges-Pompidou Tel: (1) 42 77 12 33
Kurt Schwitters: exhibition of works by the German Dadaist; to Feb 20
Musée Carnuschi Tel: (1) 45 63 50 75
Japan, Testes and Tranquility: The Japanese Tea Ceremony: the historical and philosophical development of the Japanese ceremony; to May 14 (Not Sun)
OPERA/BALLET
Châtelet Tel: (1) 40 28 28 40
King Arthur: music by Purcell. A William Christie and Graham Vick production; to Feb 19
Opéra Comique Tel: (1) 42 96 12 20
Laird: by Delibes. Conducted by Frédéric Chaslin and produced

by Gilbert Blin; 7.30 pm; to Feb 18
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
La Damnation de Faust: by Berlioz. Conducted by Myung-Whun Chung and produced by Luca Ronconi. Soloists include Béatrice Uria-Monzon as Marguerite, and Thomas Moser/Gary Lakes as Faust; 7.30 pm; Feb 15, 18, 20
Lucia di Lammermoor: by Donizetti. A new production by Andrei Serban. Maurizio Benini and Roberto Abbado (from April) conduct the orchestra and chorus of the Paris National Opera; 7.30 pm; Feb 17

WASHINGTON

CONCERTS
Kennedy Center Tel: (202) 467 4800
Choral Arts Society of Washington: Norman Scribner conducts Menotti and Williams' "Dono Nobis Pacem"; 8.30 pm; Feb 19
Royal Philharmonic Orchestra: Conductor Yuri Temirkanov with pianist Eliso Virsaladze plays Britten, Prokofiev and Stravinsky; 3 pm; Feb 19
OPERA/BALLET
Washington Opera Tel: (202) 416 7800
Somers: by Handel. Conductor Martin Pearsman, Roman Terleckyj directs a Zack Brown production; 8 pm; Feb 15
Vaneck: by Samuel Barber. Director Michael Kahn, conductor Christopher Keene; 8 pm; Feb 18, 19 (2 pm)

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Ian Davidson

Shifting strategy for aid

EU priorities are now eastern Europe and the Maghreb

The argument between members of the European Union over how much aid to earmark for the 70 developing countries involved in the Lomé Convention looks at first sight like the usual uninspiring spectacle of a bicker about money. It is, of course - but it may also be an indication that the Union is at the point of a shift away from its traditional associates in the developing world, towards newer relationships closer to home.

First, some facts. For the current five-year programme, the EU member states have put up Ecu0.5bn (£2.65bn) in aid. For the next five-year programme, the European Commission proposed a 30 per cent increase to keep pace with inflation, to a new total of Ecu1.3bn. But last week, Germany, the UK and others blocked the proposal on the grounds of cost; some even intimated that they wanted to contribute less this time, not more. The Council of Ministers will make another attempt at settling the matter today, because it has a formal meeting with the Lomé countries tomorrow.

Each government gives a different reason for not wanting to put so much into the pot. The Germans say they have reached their financial limit with the help they are giving to eastern Europe; the British say they too are stretched for resources, and that extra Lomé spending would squeeze out higher-quality bilateral British aid projects; and so on.

Undoubtedly, any European government making an effort to curb its domestic budget deficit to achieve the criteria for economic and monetary union set out in the Maastricht treaty, is bound to be in a budget squeeze. Constraints on aid are general throughout the industrial world, as OECD figures show.

In principle, EU governments should have a special commitment to the Lomé programme, because this is part of the European heritage which goes back to the founding Treaty of Rome. If they are digging their heels in, has this anything to do with the quality of the programme itself? It attracts criticism because it is not included in the EU budget and is therefore beyond paria-

mentary scrutiny. But in terms of effectiveness, some experts claim that it is comparable with other multilateral aid programmes: not as good as the best, less good than British bilateral aid, but better than Italian bilateral aid.

If the programme has induced fatigue among European donor governments, is it partly because a majority of Lomé spending goes to sub-Saharan Africa? This is where there is so much poverty and so much need, and some European governments feel, or at

The real reason behind the shift is neither budget squeeze nor donor fatigue

least should feel, a special responsibility towards their former colonies. Unfortunately, the results of aid in Africa remain deeply depressing, either because the basic economic and social conditions are so terrible and intractable, or more often because so many deplorable African governments behave in ways that make them much worse.

Cumulatively, these factors offer a compelling explanation why some EU member states have been digging in their heels over funding aid to the Lomé countries. Yet those same governments have been rapidly expanding other forms of development aid spending, on a scale that will soon overtake the Lomé programme.

Since 1990, foreign development and assistance spending in the European Union budget (that is, on top of the Lomé budget) has risen from Ecu2bn to Ecu4.8bn in 1995. According

to projections agreed at the Edinburgh summit two years ago, it will reach a ceiling of Ecu6.2bn in 1999. Over the coming five-year period, total foreign aid spending in the EU budget is scheduled to be over Ecu27bn - nearly twice the amount originally proposed by the Commission for the Lomé fund.

About a quarter is going on food or humanitarian aid and about 12 per cent to Asia or Latin America. But the big programmes are eastern Europe and Russia (about a third), with another 10 per cent going to the Mediterranean.

The real reason behind the shift away from the Lomé countries, it seems, is neither budget squeeze nor donor fatigue, but a change in strategic objectives. The new priorities may never have been explicitly spelled out and agreed by the member governments. But it is hard to resist the conclusion that they are the reflection of the priorities we can observe in practice.

In reality the European Union is starting to respond to two new strategic imperatives: eastern Europe and the Maghreb. Eastern Europe is a German imperative, because Germany is at the eastern frontier of the Union, and neither Germany nor its European partners can contemplate the idea of instability in eastern Europe. The civil war in Algeria guarantees that the Maghreb will be an imperative for France, as well as for its European neighbours on the Mediterranean.

When President François Mitterrand of France floated his proposal that the EU should host an international conference on Algeria, the Algerian government was enraged and the French government dismissed the idea. Perhaps he was just making mischief - as usual. But maybe he was making a serious point: that the dangers inherent in the Algerian war are too great for France alone to handle.

Either way, it seems clear that events are compelling the EU to take more seriously the risks and responsibilities of being an increasingly important regional power. Development aid to the Lomé countries is a political and moral duty. But a serious policy of support and influence towards the Union's "near abroad" in eastern Europe and the Mediterranean is becoming an unavoidable strategic necessity.

Michael Heseltine, the UK trade and industry secretary who is visiting India this week, follows on the heels of Mr Ron Brown, the US commerce secretary. Each is leading a drive to win international orders for his country's companies - Mr Brown flew home last month claiming that his trip had all but sewn up \$7bn of Indian business for the US.

The use of government influence and ministerial visits to win foreign business is increasingly common in Latin America, the Middle East and Asia - especially in India's big but difficult market of 900m people. Both the US and the UK devote substantial resources to the strategy. Of a total annual export promotion budget of nearly \$3.5bn (which includes export subsidies, finance and insurance), the US spends some \$300m on information, advice and "government-to-government advocacy" for US business. The UK government plans to spend about \$50m (\$93m) annually on export promotion over the next three years. The two countries are convinced that it is often only governments that can break through the bureaucratic barriers impeding trade and investment.

Export promotion has become the defining issue of Mr Brown's department and a priority for the Clinton administration. "Commercial engagement" is at the heart of US foreign policy in the post cold war period.

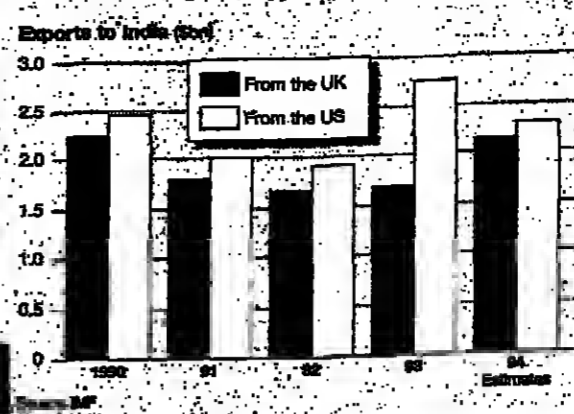
Mr Heseltine - enthusiastically backed by Mr John Major, UK prime minister - heads a trade and industry department rededicated since his appointment in 1992 to improving Britain's competitiveness and to helping it win business overseas.

India has become a prime target for US and UK trade offensives. The potential market is very large, the economy has recently been liberalised, and the country has an educated, English-speaking middle class. Indian politicians and businessmen from Bombay to Calcutta are accustomed to receiving groups of optimistic US and UK businessmen. The visitors are looking for Indian partners with whom to bid for work in everything from power stations to telecommunications and financial services.

During Mr Brown's visit last month, Motorola signed three letters of intent to build cellular telephone networks in Calcutta, Bombay and New Delhi. American International Group



Politician power: pushing exports



The US and UK governments are trying to help companies win business in India, say Nancy Dunne and Michael Cassell

Big brother lends a hand

to promote companies during a British week in Bombay, and Mr Richard Needham, the trade minister, and 85 business executives went on chartered flight of Concorde, the super-sonic aircraft, to make a tour of Indian cities.

On the US side, Mr Brown, accompanied by 25 business leaders, began his recent trip with an inspired piece of theatre. He visited the site of Mahatma Gandhi's cremation on the birthday of Gandhi's most famous disciple, Martin Luther King. In case anybody missed the message that the US and India were emotionally linked, he pointed out that both countries had also been colonies of Britain.

Such competitive tactics have been noted by the UK. "The US has an increasingly aggressive export strategy and they ruthlessly use their political muscle," says Mr Needham. "It is not realistic for us to tackle them head on. We have to be more subtle than that... In any case, India is big enough for both of us."

So far - for the US at least - the aggressive tactics seem to be paying off. US companies have landed seven out of eight Indian contracts for big "fast-track" power generation projects; and US West became the first privately operated telecommunications company to invest in Indian telecommunications services.

During Mr Brown's visit last month, Motorola signed three letters of intent to build cellular telephone networks in Calcutta, Bombay and New Delhi. American International Group

signed a memorandum of understanding with the Tata conglomerate jointly to enter the Indian market once insurance and financial services are liberalised. Smaller companies also did well.

The US Department of Commerce has identified India as one of 10 so-called "big emerging markets". Each day its new "advocacy centre" tracks the top procurement projects around the world - 30 of which are in India. The department also co-ordinates efforts to speed up the granting of licenses and approvals by the Indian bureaucracy. By 2000, the commerce department expects \$20bn of new US investment in India and forecasts a rise in US exports to \$50bn-\$60bn annually, up from \$2.3bn.

The British government is watching the US push with interest. But UK ministers are not impressed by US claims that billions of dollars worth of deals have been signed since India launched its liberalisation in 1991.

"It all depends on what signed up means," says Mr Brian Willott, chief executive of the Export Credits Guarantee Department in London, who explains that contracts of trade, however, are less impressive. After years in which a substantial trade balance, persisted in the UK's favour, the two countries are almost level. Final figures for

1994 are expected to show UK exports to India rose by more than \$200m to \$1.4bn, with India achieving a similar performance. Mr Hunt is confident the figure will soon turn again in Britain's favour.

Despite its own, chequered history in India, Britain believes it is politically more acceptable than the US, which was an ally of Pakistan during the cold war. "India values the UK's historic ties with India, but they also know we are not back to rebuild the Raj; we are sensitive to Indian history which works to our advantage," says Mr Needham.

Efforts to instil pro-British feelings in the next generation of Indian businessmen are also under way; one plan is to divert to the UK the young Indians who currently choose to go to the US for business education.

Mr Frank Hunt, head of the Indo-British Partnership in the UK, the part of the DTI that co-ordinates government and private sector efforts to identify and exploit business opportunities in India, says that UK standing investment there has risen by £1bn in the past three years, taking the total to £3bn. He estimates that there is another £3bn of investment already in the pipeline.

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LETTERS TO THE EDITOR

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European TV needs end to web of curbs

From Mr Nigel Walsley

Sir, Stephen Dorrell, secretary of state for national heritage, may be right that long-term protectionist barriers will not improve the competitiveness of the European film and television industry ("Why quotas inhibit development", February 13). But what can be done to give European media companies a better chance to compete with large US groups armed with massive programme libraries, strong income streams from their home base and a hunger to expand in European markets?

Politicians could begin by disentangling the complex web of ownership restrictions in Europe that fragment our industry and inhibit growth. In the UK, the restrictions in the Broadcasting Act prevent TV companies from running satellite channels, create an artificial distinction between broadcasting and production and keep the various media - television, radio and newspapers - at arm's length from one another. Elsewhere in Europe media ownership rules vary from country to country.

UK companies need to imitate their US competitors and

achieve the critical mass in their home markets necessary to take greater risks in funding new productions, expand their programme libraries and develop new channels and delivery systems. Current regulations work against this.

Mr Dorrell is right that good home produced programmes are more popular than imported ones, but they are also more expensive. If we hold back television in the UK, our production base will become weaker and our vulnerability to imports will grow.

Whereas US producers have little commitment to European production, indigenous European broadcasters have every interest in fostering home grown programmes. The stronger they are in their own home markets, the more they will be able to reinforce that commitment. Allowing home-based companies that invest in the production base to grow is the best way to promote both UK commercial interests and those of UK consumers.

Nigel Walsley, chairman, Carlton UK Television, 101 St Martin's Lane, London WC2N 4AZ, UK

Share options best means of ensuring commitment

From Sir Owen Green

Sir, Contrary to your view that they offer little management incentive or inducement to loyalty ("Risk-free option for directors", February 13), I believe that share options are the most worthwhile of all provisions for performance beyond that for which salaries are paid.

As inducements for commitment to the company ("loyalty" cannot be bought), their constrained ability to be exercised inside a period normally of not less than three nor more than 10 years after grant, makes them superior to any other shorter-term cash payment such as an annual bonus.

As genuine incentives for performance by management as distinct from the individual and, at the same time, marrying with the share price related interests of shareholders, I know of none better.

To casually dismiss the effect of a fall in share price as the mere loss to an employee

option holder of a potential profit opportunity, compared with a potential loss by a risk-averse investor, is to misunderstand the reward-related intent of all bonus schemes for the employee whose comparable downside risk could be his very livelihood.

All schemes aimed at measuring and rewarding exceptional performance have flaws and much effort, academic and practical, is devoted to their perfection.

But "the best" can be the enemy of "the good", particularly when the latter is a well-designed, widely available share option scheme. It will not, as in your words, "fail the key test... that the interests of the shareholders and managers should be as closely aligned as possible"; indeed, it will pass that admirable test with high marks.

Owen Green, Edgell, Succomb & Hill, Worthingham, Surrey CR5 5JG, UK

Privatisation to cut waste

From Zia Rahman, Balázs Váradi and Ferenc Kovács

Sir, Dr B B Ortóy and Ms D A Vorsatz (Letters, February 8) dispense your criticism of the slow-down in Hungarian privatisation, especially in the energy sector. Energy wastage is clearly one of the least desired legacies of the old system. Ortóy and Vorsatz hold that it is the new government's job to set this right, and if this means delaying privatisation, so be it.

We think they are utterly mistaken. One of the main reasons why the government is dragging its feet is for fear of the political repercussions: privatisation would imply a fur-

ther rise in utility prices if power generation is to be attractive to investors. Along with price subsidies, would effect more economical use of energy. Nothing will discourage waste more than higher prices. For this reason, anyone who wants to see less energy wasted must call for privatisation without delay.

Zia Rahman, Balázs Váradi, doctoral candidates, Department of Economics, Ferenc Kovács, M.P.P.M. candidate, School of Management, Yale University, Connecticut 06320-1972, US

A bigger incentive, surely

From Mr Aurian de Maupou

Sir, Surely Stefan Tangermann and Tim Jostling put it upside down when writing in their article, "Opportunity to reform the CAP" (February 9), "...with lower subsidies for the products, the incentive to over-produce is reduced".

If these gentlemen were paid less per page published, would they not immediately increase either the number of reports, or the number of pages per report? Or both? Aurian de Maupou, 2 Bishops Close, Chislewick, London W4 4JA, UK

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Wednesday February 15 1995

Future of the CIS

The Bolsheviks attacked the Tsarist empire as "the prison-house of nations". Then they set up their own harsher and more centralised version and called it the Soviet Union. Few tears were shed when it disintegrated in December 1991.

But its demise left a vacuum. Leaders from the Slav-populated successor states met in Minsk, the Belarus capital, before the union died to replace it with a loosely defined Commonwealth of Independent States (CIS). The latest CIS summit in Alma Ata, the Kazakh capital, over the weekend, indicates that the grouping is still struggling to define its role. That is no bad thing.

The CIS has been controversial from the beginning. The Baltic states, which declared their independence shortly after the failed August 1991 coup, have never wanted anything to do with it. The Ukrainians joined reluctantly, with the intention of keeping it toothless. The Kazakhs, and other central Asians, were indignant at their initial exclusion on thinly disguised ethnic lines grounds.

Armenia, at war with Azerbaijan over Nagorno Karabakh, has never joined, while Azerbaijan, under its restored Soviet-era leader, joined belatedly in the hope of Russian help in its struggle to retake Karabakh. Georgia too acceded reluctantly, as the price demanded by Moscow for calling off its clandestine military assistance to separatist Abkhazia.

After three years, views on the future role of the CIS are as diverse as ever. Modernisers, broadly defined, imagine the future of the CIS as an eastern version of the European Union, a free association of states agreeing to pool elements of sovereignty in the common weal. At the other extreme are those who dream of restoring the Soviet empire.

The fundamental problem for the CIS is that Russia remains too big and powerful to be just another member. It will always be tempted to exert its influence, particularly on behalf of the 25m ethnic Russians in the newly independent states. Powerful lobbies in Moscow also see the CIS as a cheap route to maintaining indi-

rect control over the energy and mineral wealth of central Asia.

Nostalgia for the imperial past is not confined to Russia, however. The CIS concept also has attractions for inexperienced leaders of newly independent republics who feel isolated and remain anxious to maintain linkages both with Moscow and with each other. Not dissimilar thinking lay behind the formation of the British Commonwealth, which served as a post-imperial model for the CIS founders. But the contiguous Soviet Empire was more intertwined (and much more central to Russians) conception of themselves than the far-flung, wartime British Empire ever was.

Russia will always take a special interest in the affairs of its neighbours, the Baltic states, Belarus, Ukraine and Kazakhstan. Unfortunately, the Soviet system defied economic rationality, saddling the Eurasian landmass with hopelessly uneconomic plants linked by irrational transport, supply and marketing arrangements. The top priority for both Russia and the other CIS states is, therefore, to reform their economies and strengthen their fledgling democracies, while providing a framework within which private businesses can re-establish productive economic ties.

The failure of the latest CIS summit to promote closer political and economic integration implies that member states remain more interested in freedom to pursue perceived national interests than in strengthening an ambiguous and flawed supranational body. To an extent, this is sensible. It is certainly understandable, particularly after Moscow's bungled military operation in Chechnya, that other states are wary of Russia's persistent urge to dominate.

Nevertheless, all parties would benefit from turning the CIS into a mechanism for rational economic and political co-operation among the lands of the former Soviet empire. But first Moscow has to demonstrate its willingness to be a law abiding *primus inter pares* over a huge area where its concerns will always loom large, but must not be pursued at the expense of everyone else.

Power bids

The risk that the government's current weakness could lead to serious erosion in the rigour of UK competition policy has always been real, given the availability of the nebulous "public interest" criterion in assessing takeover bids. Trafalgar House's proposed offer for Northern Electric thus presented Trade Secretary Mr Michael Heseltine with an important test.

The direct competition questions involved are negligible. Yet the issues at stake in conglomerate ownership of utilities are such that it would have been easy to declare this a special case.

Mr Heseltine's decision not to make a reference to the Monopolies Commission looks sensible, given the assurances provided by Trafalgar over co-operation with the energy industry watchdog.

Britain's borders

The dispute about EU immigration policy kindled by the weekend resignation of Mr Charles Wardle, a UK trade minister, has all the ingredients of a classic British Euro-row. On one side stands the British government attempting, at least in the eyes of some parts of the UK press, to safeguard immigrant hordes.

In the opposite corner is the European Commission, apparently dithering Britain into opening its borders against its will. Some facts have been misrepresented. There is nothing new in Britain's divergence with its European partners over border controls. Yet it is the Commission - not Britain - that is now being taken to the European Court over the matter. The action has been launched by the European Parliament, which accuses the Commission of failing to implement the 1985 Single European Act set up to ensure "free movement of goods, persons, services and capital".

The act also embodies a declaration allowing EU states to take "necessary" measures (including border controls) to counter activities like terrorism and drugs smuggling. Under pressure from the parliament, the Commission plans to introduce a directive this year to enforce free movement of people. However, the directive's fate will depend on the Council of Ministers, in which Britain can use its veto. In short, no imminent threat to Britain's right to passport controls.

The latest supposed Brussels onslaught on UK sovereignty may be less serious than many think. But the controversy could deflect attention from the real issue:

Offer. While there is no legal sanction for any transgression, a combination of publicity and the threat of a future MMC investigation should be sufficient to ensure that Trafalgar toes the line on the provision of information, and the management of the electricity company's cash flow within the group, if the bid succeeds.

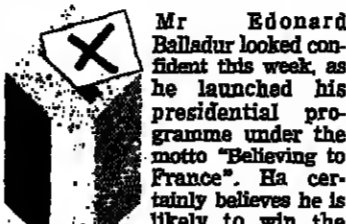
Yet the decision to submit the sector to the rigours of the capital market raises another question. Fee-hungry merchant bankers may now crank up their industrial clients to exploit a window of opportunity before a possible Labour government can change the rules. Whether the resulting scramble will produce the most rational possible structure for the electricity supply industry is, in a word, moot.

whether the full benefits of the single market can be realised when some EU members maintain frontier controls.

The question is a sensitive one not only for Britain - above all the EU's external borders will be secure against illegal migrants. Largely reflecting these worries, even the EU's most federal minded members have been slow to lift internal controls, as they had originally been scheduled to in January 1993. Led by Germany, France and the Benelux countries, France EU signatories of the Schengen treaty will eliminate controls from next month. At the urging of France, the Schengen member most anxious about illegal immigration, the controls will be phased out over three months.

As an island with a limited number of entry points, Britain finds it more convenient than mainland EU members to maintain frontier controls. However, the whole EU will soon be able to ensure whether the Schengen treaty really does exacerbate welfare abuses or, more seriously, cross-border crime. If effective international co-operation can be implemented to counter such activities and also to police EU external frontiers, the experience of open Euro-borders is likely, over time, to encourage Britain to become part of Schengenland.

In coming years, British and other European travellers will cross most EU borders without passports, yet will have to show them at Dover or Heathrow. Such experiences, more than precipitate action in Brussels, should help to convert the British to the benefits of dismantling border controls.



FRENCH ELECTIONS April 23/May 7

of whom turned out on Monday for the prime minister's first campaign conference.

But Mr Balladur seems aware of the danger of complacency. With more than two months still to go before the first round of voting on April 23, the front runner felt impelled to fire off a broadside of detailed proposals at his rivals.

French politics are a messy and unpredictable business. This is particularly true of presidential races, where the uncertainties are multiplied by weak party structures, fickle political loyalties and, this time, the plethora of at least 10 candidates vying for seven years in the Elysee.

Mr Balladur appears certain to figure in the May 7 run-off between the two leading candidates from the first round of voting. The main question is whether his opponent will be Mr Jacques Chirac, his fellow Gaullist, or Mr Lionel Jospin, the newly nominated Socialist candidate.

But there are at least three sources of uncertainty. First, opinion polls show there has been a recent rise in the number of undecided voters, with the proportion fluctuating between 20 and 50 per cent. This is probably the legacy of the "non-candidacy" of Mr Jacques Delors, the former European Commission president, who recently ruled himself out of the race. While there was a prospect of him running, Mr Delors drew support from virtually all camps of mainstream French politics.

Second, each of the three main candidates faces a real or threatened challenge from within his own camp. This is in addition to the traditional bias of the hard right and left, represented by Mr Jean-Marie Le Pen of the National Front and Mr Robert Hue, the Communist leader.

Mr Chirac has Mr Philippe de Villiers, the anti-Maastricht conservative, dissenting, fishing for votes in what he would normally regard as his electoral waters.

Mr Jospin's problem is that Radical, the Socialist's traditional ally which has been revived by Mr Bernard Tapie, the maverick businessman, may run its own candidate. This would probably not be Mr Tapie himself, who faces possi-

bankruptcy and disqualification. Mr Balladur may also be challenged. In spite of the wholesale defection of the UDF centre-right party to the prime minister's cause, both Mr Valéry Giscard d'Estaing, the former president, and Mr Raymond Barre, are still considering running.

A third source of uncertainty affects Mr Balladur alone. It is the prospect that serious disorder could break out in a government wracked by presidential rivalries. There are few topics these days on which it is unified and disputes are increasingly frequent.

The election issues themselves are muddled by the lack of clear party platforms binding the candidates - a situation prevailing for sound practical reasons.

No one can win a presidential election on the support of his party alone. Coalitions therefore have to be created. And strange creatures these coalitions can be. The Balladur camp contains odd bedfellows such as Mr Charles Pasqua, the hardline interior minister, and Mr Pierre Méhaignerie, the liberal justice minister. But it is less eclectic than the pro-Chirac partnership between Mr Philippe Séguin, the National Assembly president who wants to find ways of ordering companies to employ the jobless and Mr Alain Madelin, enterprise minister, who sometimes gives the impression he regards the European Monetary System as an intolerable restraint on market forces.

Nonetheless, a number of broad election issues have emerged. They do not entirely correspond to the triple motto that Mr Balladur this week set for his campaign - "equality of opportunity, liberty and Europe". But as both the incumbent prime minister and the front-runner presidential candidate, Mr Balladur can to some extent set the election agenda.

Mr Balladur's overall management of the economy is not contested by his mainstream oppo-

Every man for himself

The battle for the French presidency is proving messy and unpredictable, writes David Buchan



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nents. The economy is growing again, at an annual pace of more than 3 per cent. Real interest rates remain high, pegged to Bundesbank levels, but no leading candidate is campaigning to return monetary policy from the Bank of France to the government. Similarly, there is a consensus on the need for some reduction in the budget deficit and some reform of the welfare system.

Mr Balladur may believe taxes will have to be raised after the election, but neither he nor his rivals are going to wreck their electoral chances by proposing that now. Indeed Mr Balladur hints at a cut in the rate of income tax in return for widening its base. Nor is privatisation a serious bone of contention.

The principal economic issue is France's chronic tendency to generate fewer jobs for a given increase in economic growth than its partners. Mr Balladur's main solution is to continue to reduce the employment disincentives of high welfare charges on company payrolls by shifting these charges on to the state budget. Mr Chirac appears to want the state to intervene more

directly to put more of the country's 3.3m unemployed back to work. Mr Jospin's main solution is to reduce the 38-hour standard working week to create new jobs.

The debate on shortening the presidential term, with Mr Balladur favouring a single seven-year term and Mr Jospin calling for renewable five-year terms, has caught the headlines. But there is no real heat in it. The consensus that French voters should be able to call their presidents to account more frequently has been growing for the past 20 years and has been reinforced by President François Mitterrand's 14 years in office.

By contrast, the burgeoning political and financial scandals of recent years and months have stirred real controversy over the proper relationship between politicians, magistrates and police.

So the response of most leaders of the UDF federation, which would otherwise be Mr Barre's natural constituency, is that there is no room for him in the presidential race (as there clearly was in 1988, when Mr Barre won a respectable 16.5 per cent of the vote).

The UDF leaders argue that Mr Balladur is already carrying the standard for the "European, liberal and social" policies, dear to themselves and Mr Barre. This is certainly true for European monetary union, which Mr Balladur affirmed again this week that he wanted to see "as rapidly as possible... if possible by 1997".

This enthusiasm for Emu-by-1997 may appear to jar with Mr Balladur's self-styled "pragmatic" approach to European integration and his refusal to countenance the new taxes that may be essential to bring the budget deficit within the Maastricht convergence criteria by 1997. But, even if he is privately sceptical, he has good reasons for declaring publicly his belief in early Emu: it maintains downward pressure on France's deficits; it keeps the UDF happy and it reassures the financial markets.

Mr Balladur said this week he was providing a relatively detailed programme so that he could not be accused of spouting only "big words and hollow promises". He still has a couple of months to be tested on that.

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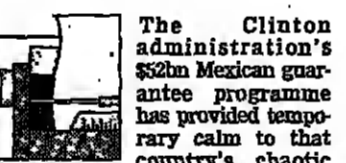
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Dose of financial morphine for Mexico



PERSONAL VIEW

The Clinton administration's \$20bn Mexican guarantee programme has provided temporary calm to that country's chaotic financial markets. But it offers no assurance of lasting success.

A private, market-based solution is preferable because it avoids spreading the risk of default to all US taxpayers. It would also force Mexico's debt holders to take responsibility for restoring financial discipline and for the long-term stabilisation of the peso.

The current programme - which is both boldly conceived and unprecedented in scope - has transformed Mexico into a depository institution because the US government has stepped in to guarantee the country's debt. The US now has a direct claim over the Mexican government and an indirect claim over Mexican financial institutions.

By accepting this massive intervention, Mexican officials are on a slippery slope. Instead of dealing with a multiplicity of private

investors, they face endless negotiations with a consortium from the US State and Treasury Departments, the International Monetary Fund and the Bank for International Settlements - with Congress watching.

This is a bad development. The longer the guarantees are outstanding, the more likely they are to anaesthetise Mexican officials to the fiscal standards required by the international capital markets.

The bailout could also impair the liquidity of other emerging debt markets. A two-tier market may develop, distinguishing between those sovereign debts that are likely to be bailed out by the US and those that are not. Private investors holding debt in the second of these two categories may be forced to sell their securities. Some investors could incur substantial losses. Most will be reluctant to return to those markets without a US guarantee.

In considering how a market-based solution should be structured, we need first to identify the origins of the Mexican debt crisis. It arose from a temporary inability to fund short-term, fixed-income dollar

securities - *tesobonos* - after hard currency reserves were depleted in an abortive effort to support the peso. Yet the assets Mexico can liquidate over the intermediate term exceed the issued debts.

This means that, if maturities of all \$20bn of *tesobonos* due to mature this year were staggered so as to repay \$50n a year from 1996 on, there would be no debt crisis. Those

extended principal payments could be met, along with punctual payment of interest.

The proven way to accomplish this - and the one we recommend - is to encourage existing investors to exchange their short-term securities for bonds with a longer maturity. Critics might argue that a privately negotiated exchange offer is a risky process. But we contend that the

guarantees organised by the US government amount in an injection of financial morphine. The eyes of central bankers and *tesobono*-holders are temporarily glazed over with relief. However, without realising it, the architects of these guarantees have sent an unfortunate signal by confirming that private investors need no longer rely on hitherto active Mexican capital markets for liquidity.

By contrast, the announcement of an exchange offer in line with our suggestion would create a climate in which investors could rely on each other not to become panic sellers. This is because the minimum value of their investments would have been made clear. We believe virtually all holders would accept the offer both because of the adverse consequences if it did fail and the tempting rewards if it was successfully completed.

Once the market recognised that the offer would succeed, enormous pressure would be taken off the peso. And once it was completed, Mexico's credit rating would be reaffirmed. However, investors would probably demand higher

rates of interest to compensate them for the risk that history could repeat itself, resulting in six-month securities being turned again into securities with a longer maturity.

The key point is that despite a very scary ride, Mexico's capital markets could prove their viability without outside intervention - to the benefit of all emerging markets.

By spending \$20bn unnecessarily on redeeming *tesobonos* due this year, instead of holding the money in reserve, the authors of the current guarantee programme are prolonging the crisis rather than containing it. Speculators might start to wonder what would happen if the guarantees were exhausted. That could trigger the scariest ride of all.

Peter Ackerman and James A. Dorn

Mr Ackerman is managing director of Rockport Partners and former head of international capital markets of Drexel Burnham Lambert. Mr Dorn is vice-president for academic affairs at the Cato Institute.

OBSERVER

Furry suspicious

■ Must make a change from trying to explain bloody blundering in Chechnya. When Russia's foreign minister Andrei Kozyrev arrived in Stockholm yesterday for talks with Swedish prime minister Ingvar Carlsson, he found most of the embarrassing questions being aimed at his hosts.

Sweden has long been nervous about Soviet/Russian submarine incursions into Baltic waters. In the 1980s, there were indeed confirmed cases of U-boats.

But naval authorities now admit that five out of six recent instances of suspected U-boat activity can be put down to the underwater antics of a mink.

Carl Bildt, Carlsson's predecessor, last year dispatched a stiff letter to Boris Yeltsin claiming "the technical evidence" was "convincing". Little did he know that hydrophone devices have difficulty in distinguishing the sound produced by a mink's tail from that of a U-boat propeller. But Kozyrev was not going for an apology, dismissing the affair as "a joke - a footnote in relations".

Batting order

■ The repercussions of Sir David Scholey's decision to postpone his retirement from the House of

Warburg go well beyond the Warburg boardroom. By retiring at 60 he was a natural for at least one big chairmanship. Now the headhunters are going to have to search their manly.

Scholey had been mentioned as a possible successor to the BBC's Marmaduke Hussey, and CEC's Lord Prior, 67. He had even been seen as a possible contender to take over from Sir Patrick Sheehy, 64, chairman of BAT Industries, Britain's sixth biggest company.

Indeed, the question of who succeeds Sheehy is acquiring some urgency since there is no heir apparent.

Sir Alick Rankin, who joined the board 18 months ago, is no longer in the running now that he is getting the chairmanship of General Accident, and Lord Armstrong, the former cabinet secretary, is simply too old. The job would suit a well-connected globe trotter like Scholey.

Of course, there is always Lord Cairns, who has been on the BAT board for five years, and has more time on his hands these days.

Suicide mission

■ Anyone curious about the workings of the mind of Libyan dictator Muammar Gaddafi now has an additional source of inquiry besides the political musings as expounded in his famous Green Book.

This time the Muse has inspired

the colonel in a literary direction, resulting in a collection of short stories and essays entitled: *The Village, the Village, the Earth, the Earth and the Suicide of the Astronaut*.

The basic message seems to consist of a diatribe against the evils of the city, combined with a call for a return to bucolic idylls and all that.

But the text sounds like anything but escapist stuff. The astronaut in the title, for instance, returns to earth unable to make a living and promptly kills himself.

Perhaps Gaddafi's old friend Tiny Rowland would like to review the tome, now that Louhr demands less of his time.

Gore report

■ Good to see that one member of the old guard at Warburg is carrying on as if nothing has happened. Michael Gore, Warburg's former finance director and now chairman of its Asia/Pacific business, was in Beijing yesterday raising the Warburg flag over yet another far-flung outpost.

When pressed by the FT's man on the spot, he said that there might be "short-term volatility" caused by changes in leadership, but long-term investors would be rewarded.

And, no, he was not talking about the changes at the top of S.C. Warburg but what might happen when China's ailing Deng

Xiaoping passes on. And what about the succession at Warburg? All he and his associates would say is that they are out sure that "divine intervention" is applicable to Warburg's present difficulties.

That must be a relief for the headhunters.

Suspense

■ Wolford finally strode to the stock exchange yesterday - Valentine's day, naturally. The fashion lights manufacturer, it will be remembered, goes down in history for celebrating woman in its last annual report as "the unending, timeless, archaic and yet at the same time most modern, complicatedly simple, and fascinating phenomenon".

The much-hyped "Lady" shares were eight times oversubscribed, but sagged an embarrassing one shilling from the Sch440 issue price in Vienna.

The French, by contrast, exhibited finer feelings for the poetry of the occasion, marking prices up FF110 at FF120 a couple of hours later in Paris. Fascinating, complicated - so presumably, terribly female.

Flow chart

■ How did the plumber end his affair?

He told her: "It's all over, Flo."

Financial Times

100 years ago

The weather and the railways. It was natural that the extremely severe weather which we have experienced during the last few weeks should have produced an unfavourable effect upon the Home Railway traffic receipts. Snowstorms and other meteorological disturbances have to a considerable extent disorganised the goods service, and the amount of freight passing over the metals has been reduced by the temporary stoppages - notably of the building trade.

50 years ago

Car purchase deposits. The Society of Motor Manufacturers and Traders took occasion some time ago to warn the public that no reliance could be placed on delivery of new cars in the post-war period merely because a deposit had been made in respect of an order or a credit note issued on the purchase of a used car. Apparently, the method is still being persisted in, and the manufacturers renew their warning to the public that they do not in any way acknowledge priorities of this character.

France fails to win EU backing for Hollywood TV film quotas

By Emma Tucker in Bordeaux

France lost its battle yesterday to persuade its European Union partners to support the imposition of stricter quotas on the screening of Hollywood films and other foreign productions by European television stations.

At an informal meeting of EU culture ministers in Bordeaux, Germany and other member states backed away from French plans to tighten the rules determining what can be broadcast into European homes. It now seems unlikely that the EU's audio-visual industry will face far-reaching regulatory changes in the near future.

"We think that quotas impose a kind of pressure on free and independent television stations," said

a Danish spokesman. "We find them undemocratic and we haven't seen any evidence that quotas bring any benefit."

After a lively discussion inside Bordeaux's Grand Theatre, it emerged only Belgium and Greece were enthusiastic about France's conviction that the best way to safeguard European culture from a flood of US products was to reinforce a requirement that broadcasters screen a minimum of European-made productions.

"We don't have a European car, we don't have a European train... I don't see why there should be a European film," Mr Helmut Schaefer, the German representative, said.

However, Mr Marcelino Oreja, the European commissioner

responsible for audio visual policy, told ministers he was confident he would be able to present definite proposals for reform of the existing regulatory framework when they meet formally on April 3 in Luxembourg.

France - which attaches far greater importance to the protection of national culture than other member states - believes that general television channels should be required to screen a minimum 51 per cent of European-made programmes.

Mr Jacques Toubon, the French culture minister, said: "In this area as in so many others, the diversity of our culture will not be able to assert itself against uniformity unless we stand together."

At the moment the EU's 1989

Television Without Frontiers directive requires broadcasters to screen a minimum 51 per cent of European productions, but only "where practicable", a loophole that has allowed transgression. But reservations from other member states mean that the French proposals - a priority of the country's six-month EU presidency - are unlikely to become law.

The Italians suggested existing rules should remain, while the Danes pushed for the quotas to be phased out altogether.

Mr Stephen Dorrell, the UK heritage secretary who opposes the use of quotas, said: "Where we disagree with France is not on the importance of safeguarding European culture, but over the question of how to get there."

UK clears way for takeover of privatised power concern

By Peggy Hollinger and John Mason

The UK government cleared the way yesterday for the first takeover of a privatised UK electricity company by saying it would not refer Trafalgar House's hostile £1.2bn bid for Northern Electric to the Monopolies and Mergers Commission.

Electricity shares jumped on the announcement as the stock market prepared for other possible predators to declare their interest in the cash-rich companies. The sector closed 3 per cent up while the market as a whole fell slightly. Northern closed 16p up at 109p.

"It opens up the whole sector for takeovers," said Mr Nigel Hawkins, electricity analyst at Hoare Govett, the stockbroker.

Trafalgar has promised that it will provide Northern with sufficient resources to meet its obligations, make the appropriate information available to the regulator,

retain separate accounts and financial independence in the utility, and agree to appropriate amendments to its distribution licences.

However, it is understood that the regulator is disappointed that the decision to clear the bid was made without attaching any legally enforceable conditions that could be applied to other potential takeovers.

The regulator was negotiating yesterday with Trafalgar House over amendments to Northern's licence to be made if the bid succeeds. The Office of Electricity Regulation said these amendments would be legally enforceable.

Prof Littlechild also retains the right to refer Trafalgar/Northern to the MMC under the 1989 Electricity Act if the bidder refuses to amend the licences, or fails to abide by the assurances. He is believed to be planning to propose several amendments to the licences, including refloating 25

per cent of Northern after a takeover. It is also likely that he will require Trafalgar to retain a UK listing.

Trafalgar said that it had no objections to the licence amendments proposed so far. However, it said the flotation of a minority stake would be likely to cause concern if eventually proposed.

In Westminster, Mr Heseltine's decision provoked angry responses from opposition spokesmen, but largely met the concerns expressed by a number of Tory MPs over the bid.

Mr Jack Cunningham, Labour's trade and industry spokesman, said the failure to refer the bid was "extraordinary and deeply unsatisfactory".

Northern Electric refused to comment on the decision. It is preparing its final defence document.

Editorial Comment, page 13; See Lex: Northern Electric bid decision welcomed, page 22

New York to cut spending by \$2.7bn

Continued from Page 1

Pataki, the Republican governor of New York State, but New York City is going further - for example by limiting drugs available through Medicaid and eliminating entitlement to spectacles.

The rest of the \$2.7bn savings will come from \$600m cuts in grants to city agencies - and \$600m savings from productivity agreements with the workforce in exchange for a pledge of no further lay-offs.

Police warnings of possible terrorist attacks have led to a sharp tightening of security in the Wall Street financial district of lower Manhattan over the past few days.

The New York Police Department believes financial institutions could be the target of an Islamic terrorist attack to protest at the continuing trial of 11 defendants accused of planning a "war of urban terrorism" against New York.

Battle to keep Moscow at the centre

Continued from Page 1

it is the mayor - Mr Luzhkov prefers to go by the title "premier" - who regulates local consumer prices, decrees who may live in the capital city and even determines the local approach to privatisation.

In practice, if not in principle, when the Moscow premier's views on those issues have come into conflict with national policies established by the cabinet of ministers, within city limits, it is Mr Luzhkov's line that has prevailed.

Mr Luzhkov is difficult to place along the reformers versus hardliners axis into which outside observers often try to confine the Byzantine complexities of Russian politics. On the one hand, he

was one of the defenders of the White House during the failed August 1991 hardline coup - a role that earned him Mr Yeltsin's trust. Last anyone forget which side Mr Luzhkov took during that turning point in Russian politics, he has published a blow-by-blow account, under the title 72 Hours of Agony.

During the other defining moment of the past few years, the armed struggle between Mr Yeltsin and the Russian parliament in October, 1993, the mayor also took the president's side. Mr Luzhkov, whom Mr Yeltsin appointed in the summer of 1992 to run both branches of the Moscow government, returned the favour by cutting off water, electricity and telephone lines to the besieged parliamentarians.

But while Mr Luzhkov has unflinchingly stood by Mr Yeltsin at key political moments, he has also entered into open political confrontation with some of the president's closest associates. His most prominent enemy is Mr Anatoly Chubais, a first deputy prime minister and the standard bearer of market reforms in the Russian cabinet.

From the outset of mass privatisation, Mr Luzhkov has fought for, and won, an exceptional status for the city of Moscow. That status was entrenched last week when Mr Yeltsin signed a decree giving the city further control of privatisation.

The city has also, separately, given itself powers to renationalise privatised assets. Last week the city government

was accused by a western businessman of seeking to "renationalise" the Radisson Slavyanskaya, one of Moscow's sleekest western hotels.

Mr Paul Tatum, one of the American partners in the venture, said: "I believe at this point in time our joint venture has been quietly taken over. You can say nationalised, you can say expropriated." Moscow authorities dispute Mr Tatum's claim, saying he owes the city money.

An official said that Moscow, seeking to end the battle, was trying to oust Mr Tatum from the joint venture's board of directors. For Mr Luzhkov, who has successfully defied cabinet ministers, getting rid of one uncooperative American is unlikely to pose much of a problem.

BP's profits pump

LEX COLUMN

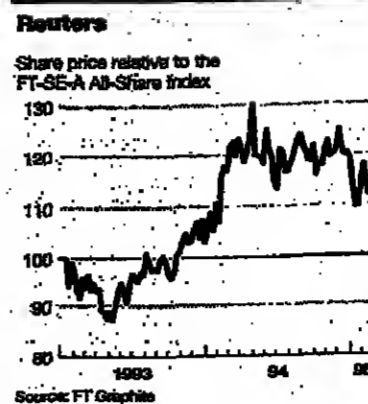
The near 2 per cent drop in the British Petroleum share price is at first sight curious. Profits for 1994 were at the top end of expectations and the fourth-quarter dividend increase was not widely predicted. But investors are losing their capacity to be surprised at the magnitude of BP's post-1992 turnaround. Yesterday was as good a moment as any to take profits after the stock's 27 per cent outperformance against the market in the past year.

One by one, ambitious targets for profits growth, cost reduction and debt reduction have been beaten. Management credibility is such that there is little doubt new targets will be met too. This is not merely because of the cyclical recovery in petrochemicals where operating profits are set to double this year. Refining margins have arguably bottomed out.

Upstream, the predicted 2 per cent a year rise in oil and gas production should combine with low costs to generate further healthy profit increases. A higher oil price would help, but even if it stays at current levels the \$3bn pre-exceptional replacement cost profit targeted for 1996 looks eminently achievable, as does the reduction in debt to \$3bn.

This is impressive, but in the price. Further re-rating is likely to wait for quarter-by-quarter proof that objectives are being exceeded, not simply met. The prospect of 20 per cent a year dividend growth is enticing, but the shares still yield a third less than the average for international competitors.

FT-SE Eurotrack 200:
1394.9 (-3.9)



Source: FT Computations

more, the domestic commercial loan market is becoming increasingly competitive, with Citicorp and the Swedes making significant inroads.

The government has every right to respond by rejecting the group's accounts at the annual meeting and then voting of the board. However, there would be little point unsettling the management given the small sums involved.

Moreover, most of the state's profits from its banking investments will be generated through capital gains, not dividends, but the stronger the bank's financial position, the higher the price the state will obtain when it sells its stake. The government may have been somewhat humiliated yesterday, but it should eventually be richer for the experience.

Northern Electric

Fortunately, the UK government has ignored calls to refer Trafalgar's £1.2bn bid for Northern Electric to the Monopolies and Mergers Commission. No competition issues are raised by this bid. Northern has done itself no credit by campaigning for a reference. If it had been successful, the immediate effect would have been to damage investors' interests by sending the share price plunging. Instead, they enjoyed yesterday a further 12 per cent rise in their investment.

Northern rightly points out that Trafalgar can afford to increase its £10.48 a share bid and yesterday's closing price of £10.91 shows the market expects more. Trafalgar will be able to offset its own accumulated tax losses against Northern's profits. But just because Trafalgar can afford to pay more does not mean it will. Northern must first persuade its investors that their shares are worth something approaching £10.48 if the bid lapses. Northern has yet to make this case. There are no plans to step up its cost-cutting. And its promise to transfer directly to shareholders its stake in the National Grid, plus any special dividend paid by the Grid before a demerger, does not go far enough. If it is to validate a £10.48 valuation as an independent entity, it needs to exploit its unpaired balance sheet to the full by paying bumper dividends. Yesterday Northern dangled the prospect of something along these lines. One can only hope that, having kept its powder dry for so long, the bang when it comes will be big.

Additional Lex on Hanson, page 21

Reuters

Reuters will suffer from the fall-out in financial markets. As investment banks react to last year's poor profits by cutting costs, Reuters will find it harder to increase sales of its information and dealing systems. Still, the group's powerful electronic franchise in financial markets is intact: yesterday's results show that operating margins continue to rise once acquisitions are stripped out. Underlying revenue growth will be slower this year than last year's 17 per cent, as Reuters warns; but there will still be growth. And when good times in financial markets return, sales will pick up more strongly.

Something more, though, will be needed if Reuters' share price is to resume its rise. The main hope must be that the group finds a way of transferring the electronic formula from finance to other markets. Reuters so

Norwegian banks

Den norske Bank's board was right to defy the government over the dividend. The state may own 72 per cent of the company, but the government's desired payout, equivalent to 50 per cent of net profits, would not have been in its own interests or those of other shareholders. The bank's return to financial health should not be exaggerated. Last year, it made an unrepeatable net gain from releasing provisions and was in the happy position of paying no tax. Its current 28 per cent return on capital is clearly unsustainable.

Besides, the bank needs to strengthen its core capital. A tier one ratio of 7.4 per cent may look high, but the Norwegian economy's main industries - oil and gas, pulp and paper, shipping, and fisheries - are all cyclical and have a nasty habit of performing simultaneous nose-dives. Further-

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FT WEATHER GUIDE

Europe today
An active cold front will stretch from Poland to France and northern Spain, generating widespread rain and drizzle. Cold and very unstable air will follow the front into western Europe, giving numerous showers in Ireland and England and steady rain in Scotland. Rain will move further into Scandinavia. In contrast, very mild air will move north ahead of the front, giving temperatures of about 10C throughout central Europe.
Temperatures will also be unseasonably high in Spain, where sun will boost readings to about 24C in the south-east. The Balkans will be settled with sunny periods and unseasonably high temperatures.

Five-day forecast
A westerly flow from the Atlantic will continue to push rain and showers into western Europe. Most rain is expected in northern France, especially during Friday, when it could be heavy and steady. The Alps will have some snow on Thursday, but temperatures in most regions will generally be above normal for the time of year.

Station at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

Location	Max	Min	Weather
Abu Dhabi	32	24	sun
Accra	32	24	sun
Algiers	21	11	sun
Amsterdam	11	8	sun
Athens	14	8	sun
Atlanta	18	12	sun
B. Aires	28	18	sun
Bangkok	31	24	sun
Barcelona	18	12	sun
Beijing	8	2	sun
Bombay	27	21	sun
Buenos Aires	21	14	sun
Calcutta	27	21	sun
Cairo	24	18	sun
Cardiff	11	8	sun
Casablanca	18	12	sun
Chicago	11	8	sun
Cologne	11	8	sun
Dakar	24	18	sun
Dallas	24	18	sun
Dhahran	27	21	sun
Dublin	11	8	sun
Dubrovnik	18	12	sun
Edinburgh	11	8	sun
Faro	18	12	sun
Frankfurt	11	8	sun
Geneva	11	8	sun
Glasgow	11	8	sun
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Wellington	11	8	sun
Winnipeg	11	8	sun
Zurich	11	8	sun

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FINANCIAL TIMES COMPANIES & MARKETS

Wednesday February 15 1995

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MIDN. NEW DEVELOPMENT CAPITAL EXPANSION 01-2000

IN BRIEF

BP buoyant as profits soar 36%

Strong chemicals prices boosted British Petroleum's fourth quarter replacement cost profits to £277m (\$661.8m), a 36 per cent rise on 1993 and the company's best quarterly performance since 1990. The results were at the top end of analysts' expectations. Page 21; Lex, Page 14

Den norske Bank rejects state payout call

Den norske Bank, Norway's largest commercial bank, announced record 1994 profits but refused to meet state demands for a dividend payout ratio of 50 per cent of net profits. Page 18; Lex, Page 14

Pacific Dunlop slips on flat results

Shares in Pacific Dunlop, the Australian conglomerate, fell 3 cents to A\$3.01 - only a few cents above its 52-week low - on news of a flat first-half profit, before annuals. Page 17

Oil project charges hit Kvaerner

Kvaerner, Norway's second largest house-listed company, disclosed that full-year profits had been hit by NOK11m (\$150m) in provisions to cover losses on the Troll oil project and restructuring of the oil and gas division. Page 20

Ecuador dusts down mineral maps

Mineral prospectors are surveying Ecuador in what seems to be an unprecedented mining bonanza. Some companies are dusting off old maps of once active mines and exploring sites rediscovered in recent years. Page 23

ELI Lilly puts in \$316m in fourth quarter

ELI Lilly, the US pharmaceutical group, produced net earnings in the fourth quarter of \$316m before special charges, or \$1.09 per share. Page 20

Allied Irish Banks look eastward

Allied Irish Banks may take further stakes in banks in eastern Europe. The company unveiled its plans as it disclosed a 16.6 per cent rise in pre-tax profits to £232.6m (\$525.7m) last year, compared with £232.6m before exceptional items in 1993. Page 22

Reuters chief gets 38% pay hike

Mr Peter Job, chief executive of Reuters, the UK media group, last year received a pay increase of 38 per cent, taking his salary to £500,000. Mr Job's rise was announced along with other changes to Reuters' remuneration policy, including the reduction of executive director's contracts from three years to two. Page 21; Lex, Page 14

Chemicals subsidiary lifts Hanson

Hanson, the Anglo-US conglomerate, reported a sharp increase in first quarter profits following a strong performance by Quantum Chemical, its polyethylene subsidiary, and buoyant sales by Imperial Tobacco. Page 22; Lex, Page 21

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Andrew Baxter explains the biggest change in the UK industry since privatisation

British Steel core is more than before

In the UK steel industry, a decade might as well be a millennium. Back in the mid-1980s, state-owned British Steel Corporation was only just back in profit after the 1980-81 recession and looking for ways to focus on its core business - the production of bulk steels. Engineering steels, the specialist grades used to make products such as forgings for the automotive and aerospace businesses, were viewed as non-core.

The policy was one of the reasons behind the creation in early 1986 of United Engineering Steels - later renamed UES Holdings - from the merger of the corporation's engineering steels interests and the forgings business of Guest Keen and Nettlefolds, now called GKN.

Yet yesterday, British Steel - privatised, reshaped and restructured into one of the world's lowest cost steel producers - paid \$33m (\$144m) cash for GKN's stakes in UES Holdings, regaining full ownership and control.

In words that speak volumes for British Steel's changed circumstances, Mr Brian Moffat, chairman and chief executive, said: "Engineering steel manufacture is a core activity for British Steel and we look forward to continuing to improve UES's financial performance."

The deal has long been expected, but it is still a momentous event for the UK steel industry.

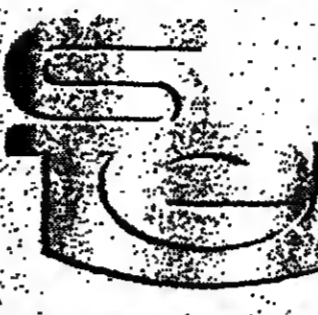
It is the biggest change of ownership since British Steel was privatised in 1988, giving the UK's dominant producer of standard steels full control of the country's second largest steel company. UES is also the biggest European producer of engineering steels.

It takes the capital spending undertaken or planned by British Steel since September to £400m, against £100m for 1993. That underlines not only its more expansionist approach since the end of the recession but its strong belief in a profitable future making steel.

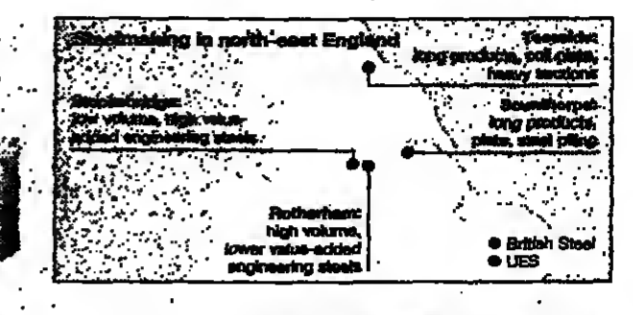
It has implications that could extend beyond the engineering steel sector. The deal could open another round of consolidation and technological change at UES and at British Steel's long products operations at Scunthorpe and Teesside.

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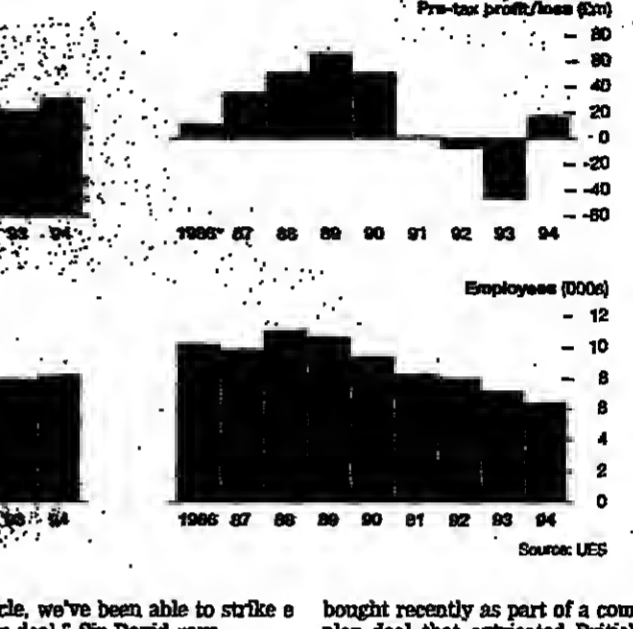
Out of the crucible



Financial history of UES Holdings



Changes changed from United Engineering Steels in 1991



too. For the past two to three years, UES has been unable to take important strategic decisions because GKN was unwilling to countenance further big spending. Restructuring might have been quicker if British Steel had had full ownership, says Mr Edward Hadas, analyst at Net-West Securities.

Although Sir David Lees, GKN chairman, claims the joint venture was "not an unhappy marriage", it emerged yesterday that previous talks had broken down after the two companies failed to agree on a sale price. When the engineering group told British Steel it was keen to sell early last year, bleak prospects for the steel industry made an outright acquisition unattractive.

Since then, however, UES has returned into the black as operating margins have recovered, with pre-tax profits of £18.2m last year. "To have done it last year without a recovery in evidence would have been very difficult for British Steel. But now we're in mid-

cycle, we've been able to strike a fair deal," Sir David says.

British Steel can now restructure its subsidiary with a free rein and with the prospect of further profit rises at UES.

Privatisation of parts of the European engineering steel industry should stimulate "more rational economic behaviour" by some European rivals, says one observer, while analysts point out that UES profits would be tax-free this year because of accrued losses over the past two years.

Against that is the cost for British Steel of the deal, and possibly of further restructuring at UES and other facilities. And that was what intrigued steel analysts yesterday.

British Steel was giving little away about its plans. "The only absolute certainty is that we will be continuing to improve competitiveness," it said.

But it has a number of options. "UES is a business which needs attention, but also one that sits alongside British Steel's long products business," says one observer.

Another related business, he says, is the Scunthorpe Rod Mill

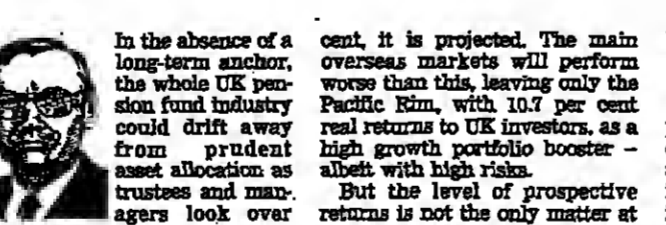
The deal underlines British Steel's expansionist approach and a belief in a profitable future making steel

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Barry Riley

How pension funds can rebalance without tears



In the absence of a long-term anchor, the whole UK pension fund industry could drift away from prudent asset allocation as trustees and managers look over their shoulders to see what others are doing.

This opinion, expressed in a strategy document by Schroders, cautious but successful exponents of the consensus-plus school of balanced pension fund management, and the UK's third-largest, external manager, could mark a turning point in institutional strategies.

The immediate strategic impact is not, perhaps, a big deal. Schroders is raising its upper limit on holdings of bonds and cash in a discretionary UK pension fund portfolio from 25 to 30 per cent (not including index-linked gilts). This is a theoretical limit, not a suggestion that it is going to dump equities suddenly.

Another intriguing feature of the document, however, is that Schroders has become hesitant about the ability of equities in the foreseeable future to deliver high real returns - such as the regular 15 per cent returns which drove UK pension fund equity exposures to more than 80 per cent during the 1980s.

A section on "illustrative real returns", which presumably fall short of being hard forecasts but are intended to be realistic and, internally consistent, suggests that the maximal return on sterling bonds during the rest of the decade will average 9.8 per cent, and the real return 6.8 per cent. The UK equity return will be just fractionally higher at 6.4 per

cent, it is projected. The main overseas markets will perform worse than this, leaving only the Pacific Rim, with 10.7 per cent real returns to UK investors, as a high growth portfolio booster - albeit with high risks.

But the level of prospective returns is not the only matter at issue. Managers are also becoming aware of the need to reduce volatility, given the rapidly increasing maturity of many pension schemes and the threat of a statutory minimum solvency standard.

According to Schroders, trustees can now make a virtue out of necessity.

According to Schroders, which runs £27bn (\$49bn) of pension fund assets, trustees can now make a virtue out of necessity. They can increase their bond exposures without having to make a large sacrifice in terms of expected future returns.

So much for the theory. What is actually happening out there? Certainly, pension funds were buying gilts last year, which they were not in 1988. At the end of 1988 the biggest UK pension fund database, the WM All Funds, indicated an average exposure to UK and overseas equities of 80 per cent, and of 8 per cent to UK and overseas fixed coupon bonds. Preliminary figures for 1994 suggest that equity exposure has declined to 78.5 per cent and the

bond exposure is up to 9.6 per cent (despite underperformance by bonds).

WM's analysis of investment policy during 1994 shows that the cutback in equities was achieved almost entirely through net sales in the UK and Europe. UK holdings were hardly changed. As for bonds, there was almost as much buying overseas as in the UK.

Curiously, as UK pension funds move one way, US funds are shifting in reverse. The latest flash report from Greenwich Associates, the Connecticut consultants, confirms that US corporate pension funds were big buyers of foreign equities in 1994. It also shows that they were sellers of dollar bonds, with a tumble in the average portfolio exposure from 26.4 to 21.1 per cent.

Relative value changes in 1994's bond bear market will have exaggerated this strategy shift, but a target bond exposure of 20 per cent is indicated for 1997. Public pension funds have a much higher 1977 target of 28 per cent but the decline from the 43 per cent level of 1991 is even sharper.

We do not have a transatlantic consensus in place yet, but similar inflation levels in the US and the UK, and greater commonality in attitudes to international diversification and to solvency testing, are leading to obvious convergence.

A theme of Schroders' strategy document is that strategic shifts may feed back into underlying asset performance. A switch from equities to bonds in the UK could prove self-justifying. But in a global market local distortions can be ironed out. The effects, the managers expect, will be limited. Don't all rush at once.

Daimler closer to control of CGS

By Michael Lindemann in Bonn and John Riddling in Paris

Daimler-Benz, the German automotive group, is likely to take a majority stake in Cap Gemini Sogefi, the French software company, giving it control of Europe's largest information technology group. Daimler's services arm, has held a 34 per cent stake in CGS since 1991 and is in talks which are likely to lead to a majority stake. Under the 1991 contract, the German group has until February next year to make a decision.

Mr Heinz Achinger, a member of the Daimler management board, said the two sides were discussing a suitable price. "In operational terms it makes total sense," he said.

Daimler has created close links with CGS since links were established between the two groups. They now have a combined turnover of about FF16bn (\$3bn).

The closer co-operation had enabled joint software platforms giving them the sort of competitive advantage over other information technology groups which helped them secure a contract last year for DEL, the international freight group.

Investors, buoyed by the prospect of an imminent agreement, pushed shares in CGS up by FF5.70 to FF171.20. The rise in the share price also reflected the reaction to results for last year and an upbeat assessment of prospects for 1995.

On Monday, CGS announced a sharp reduction in net losses to FF95m for 1994, compared with a deficit of FF429m in 1993. CGS said it returned to the black in the second half and it expected a significant net result for 1995. CGS forecast a recovery in margins and said its order book stood 19 per cent higher at the end of 1994 compared with the beginning of the year.

CGS's recovery reflects the improvement in market conditions and the impact of a radical restructuring programme over the past two years designed to give people within the group better access to its expertise.

The programme, dubbed Genesis, has involved the creation of separate profit centres for the various industrial sectors targeted by the company. The centres are organised on a geographical basis so that, for example, the US is the base for oil and energy-related systems while the French division handles all telecommunications customers.

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INTERNATIONAL COMPANIES AND FINANCE

DnB rejects state payout call despite record profits

By Karen Fossell
in Oslo

Den norske Bank, Norway's largest commercial bank, yesterday announced record profits for 1994, but held its ground in refusing to meet state demands for a dividend payout ratio of 50 per cent of net profits.

The group instead stressed the need to bolster the bank's finances. The state has a 72 per cent stake in DnB.

DnB proposed a dividend of Nkr1.25 a share, corresponding to 30 per cent of net profit. The total payout will be Nkr600m (\$120.5m), against the state's demand for more than Nkr1bn.

Mr Sigbjørn Johnsen, finance minister, refused to comment on the proposal.

Mr Ole Lund, DnB chairman, emphasised the need to improve the bank's financial strength in the face of fierce competition from foreign banks, which have built up a

28 per cent share of the domestic corporate loan market. This compares with less than 25 per cent held by Norwegian commercial banks.

Mr Lund said DnB needed to lift its long-term debt rating from A3, one step from the lowest debt rating assigned.

However, he said DnB would aim to distribute dividends equivalent to roughly half of annual profits once its financial strength reached a satisfactory level.

"In the opinion of the board, it will be in the shareholders' interests that the bank conducts a long-term policy based on stable, and preferably increasing dividend payments," Mr Lund said.

DnB last year recorded a near three-fold increase in pre-tax profit to Nkr2.68bn from Nkr882m in 1993, helped by the reversal of Nkr1.33bn loan loss provisions at the gross level, net reversals of Nkr114m, and a 45 per cent reduction in the

volume of non-performing loans to Nkr5.7bn.

Net interest income fell to Nkr4.74bn from Nkr5.37bn, while other operating income was cut to Nkr2.46bn from Nkr3.49bn.

DnB said new loan losses of Nkr2.1bn were recorded in 1994 and warned that many customers were still in a weak financial position.

Following the proposed allocation of profits, DnB's core capital ratio at the end of 1994 rose to 7.4 per cent from 5 per cent at the end of 1993, based on risk-weighted assets and off-balance sheet exposure of Nkr132bn.

The bank plans to lift the ratio to 8 per cent.

Mr Bjørn Skogstad Aamo, head of the Banking, Insurance and Securities Exchange Commission, the finance sector watchdog, recently challenged banks to achieve a core capital ratio of 10 per cent.

Lex, Page 14

Huhtamaki result hit by N American sports strike

By Christopher Brown-Humes
in Stockholm

The effects of strikes in the North American baseball and ice hockey leagues had repercussions in Helsinki yesterday, hitting the 1994 results of Huhtamaki, the Finnish consumer products group.

Profits after financial items fell 13 per cent to FM442m (\$94m). The figures were worse than expected and pushed the group's shares down 6 per cent to FM146.

The strikes disrupted important year-end sales of collectible sports cards supplied by Leaf, Huhtamaki's confectionery unit.

"If you lose a business where you have reasonably good margins you soon see it on the bottom line," Mr Timo Peltola, Huhtamaki chief executive, said.

Leaf is the fourth largest supplier of baseball and ice hockey cards in North America. The strikes cut Leaf's North American sales by 16 per cent to FM2.65bn, reducing the unit's overall sales by 1 per cent to FM4.97bn.

Huhtamaki's total sales rose 4 per cent to FM8.3bn, due to a 23 per cent increase at the company's Polarpack packaging division.

Group profits were also hit by rapid increases in packaging raw material prices, which squeezed margins; a publicity scare which led to a sharp fall in US deliveries of contraceptive implants; and the stronger Finnish markka.

Mr Peltola said 1995 prospects were brighter, even though the US baseball strike had still not been settled and figures in the first four months would be below last year's levels because of the costs of product launches.

He said Huhtamaki had successfully integrated nine European confectionery units bought from Sweden's Procordia in 1993 and underlying business growth was strong in the US and European confectionery markets.

Group sales in 1995 are forecast to reach FM9bn, with earnings per share above the FM12.16 achieved last year.

Strong European airbag sales help Autoliv lift earnings to SKr680m

By Hugh Carnegie
in Stockholm

Autoliv, Europe's leading supplier of car seatbelts and airbags, yesterday reported a near three-fold increase in profits for 1994, just nine months after it was launched on the Stockholm stock exchange.

The Swedish company returned a profit before tax of SKr680m (\$82m), compared with SKr240m in 1993.

Until last May the company was wholly owned by Electrolux, the home appliance group that is controlled by Sweden's powerful Wallenberg family.

Sales rose 68 per cent to SKr3.9bn from SKr2.3bn.

The operating margin rose to 7.4 per cent from 5.5 per cent.

Autoliv announced a first dividend of SKr3 per share.

The result matched expectations for a company which was one of the star performers on the Stockholm market last year after 100 per cent of the company was floated by Electrolux on the Stockholm exchange's secondary "O" list.

Following the float, Autoliv's shares slumped below their SKr180 a share offer price to SKr150, but then began a rapid climb. The shares slipped SKr25 yesterday to close at SKr265.

Autoliv's most dynamic

operations are in airbags, the car safety devices which are enjoying strong demand in Europe. Airbag sales by Autoliv to vehicle manufacturers rose to SKr1.1bn last year from SKr1.3m in 1993.

Sales of seat belts rose 19 per cent to SKr4.7m from SKr4bn.

Autoliv has 17 production facilities in 10 countries and claims a 50 per cent share of the European market for seatbelts and more than 25 per cent of the airbag market.

Even if 1994's strong advance is not repeated, analysts still tend to look favourably on Autoliv.

Market share elsewhere is much weaker, especially in the US and Japan where it has negligible penetration of the airbag market and about 5 per cent of the seat-belt market.

However, the company warned that falling prices for airbags and rising raw material costs would squeeze margins in 1995.

"It will be difficult to beat 1994's increase for another year," said Mr Gunnar Bark, chief executive. "Over the past 13 years we have averaged 33 per cent growth every year. 1994 was a year when quite a few new car models were launched in Europe, so we have to dampen expectations a little."

However, even if 1994's strong advance is not repeated, analysts still tend to look favourably on Autoliv.

"There should be lots of growth if they can maintain their leading position and continue to be innovative," said Mr Gunnar Bark, analyst with Handelsbanken in Stockholm.

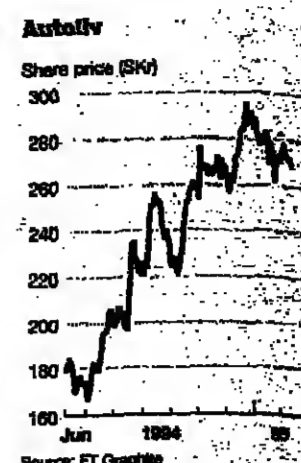
In the mature seat belts market, growth will mainly have to be achieved by adding value through technical additions, such as Autoliv's new "pretensioned" belts which lock just before impact.

The company sees much growth potential in airbags, where penetration of front-seat installation is still below 50 per cent in new cars in Europe.

New developments, such as side-impact airbags and whip-lash protection are under way.

Last year, Autoliv teamed with Volvo, the Swedish carmaker, to produce the first side-impact airbag brought to market in the world.

The company has been a success story so far. But its



new-found position as a public company may yet have its downside.

It is 70 per cent owned by foreign investors - one of the highest levels of foreign investment in a quoted Swedish company. This means that it could be exposed to its performance falling.

"Of course we have a higher exposure, we are living closer to the market now," said Mr Bark.

"But I think it is important not to be too influenced by that. Our intention is to continue to maximise our long-term potential."

Setback for German unit of ABB

The German division of Asea Brown Boveri (ABB), the Swiss-Swedish engineering group, recorded a fall in profits and turnover to the first nine months of 1994, writes Michael Lindemann in Bonn.

The company blamed fewer orders for power stations and locomotives, and greater competition in international markets.

Turnover for the nine months ending September 30 fell 3 per cent to DM6.51bn (\$4.3bn) from DM6.7bn a year earlier.

The company said profits were lower but declined to give any details. New orders for the period rose 6 per cent to DM7.62bn.

However, the group, one of the largest within the ABB conglomerate, said full-year figures, to be published on May 3, would be more representative than the nine-month results.

It noted that larger contracts were traditionally closed towards the end of year.

Danish banks warn over market reform

By Hilary Barnes
in Copenhagen

Danish mortgage banks have warned that if reforms to the Copenhagen Stock Exchange are not satisfactory they will set up an alternative exchange for bond trading.

The reforms would end the stock exchange's legal monopoly. The Danish market is the world's ninth highest for bonds, and includes a large mortgage bond market.

Differences over the reforms, which comply with the EU's investment services directive, came to a head this month.

A joint committee of issuing houses, institutional investors and trading houses, set up by the government, was unable to agree on a reform proposal to submit to Ms Mimi Jakobson, the minister for business and industry. The minister will therefore present her own compromise reform bill to parliament, probably within the next few weeks.

The aim is to make the

Copenhagen Stock Exchange a joint stock company in which issuing houses and institutional investors each hold a 20 per cent stake and brokers the remaining 60 per cent.

A stock exchange council would also be formed to draw up the operation rules for the exchange.

Issuing houses and institutional investors are worried that the council will not take their interests sufficiently into account and that the decision-making process will be cumbersome.

"If the council cannot take decisions and the stock exchange cannot react swiftly to adapt to changes taking place internationally, it will not be able to function satisfactorily," said Mr Torben Gjedde, managing director of the Association of Mortgage Banks.

"We must be able to sell our bonds through a stock exchange which functions well. If we can't, then we shall have to consider setting up our own exchange," he added.

Austria ready to sell bank stake

By Ian Rodger in Zurich

This is a turnaround for the socialist minister, who last June described the proposal of a secondary offering as "absurd and immoral". He then insisted the government was not willing to sell its entire stake.

A consortium of corporate investors led by EA Generali, the Vienna insurance group, and First Austrian Bank last year offered Sch7.5bn for slightly more than half the government's stake. Last week, the consortium indicated it would prepare an offer to buy the entire stake with the intention of selling off much of it to the public.

Mr Lacina said whether the new owners held on to the entire 70 per cent was "their business".

The only other group known still to be competing with the Generali consortium is Allianz, the German insurer. CS Holding, the Swiss financial services group, made an offer last spring, but withdrew in September claiming that in Austria's highly politicised business environment its proposal could not get a fair hearing.

Viennese bankers said the timing and terms of the privatisation could still be difficult, with the only practical period this year for such a large public offering being in early summer.

Two other large privatisations, of the Böhler-Uddeholm special steels group and the VA Stahl integrated steelmaker, are planned for March and October respectively.

Sabena deal possible soon, says Swissair

By Ian Rodger

Swissair, the quoted Swiss airline negotiating the purchase of a large minority stake in Sabena of Belgium, said it was possible a deal could be completed within two weeks.

However, it considered this time period - suggested by Mr Pierre Godfrid, Sabena chairman, in an interview with a Swiss newspaper - as unlikely.

"We do not exclude it, but we think it is an optimistic timetable," Swissair said.

Swissair has indicated it would cut the value of its offer for Sabena following the latter's failure to win government approval to cut costs by paying its pilots in Luxembourg.

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For further information the company under liquidation

ALPHA TELECOMMUNICATIONS AND SIGNALS S.A. was founded in Athens in 1977 with head office in Kallithea (72-74 Solon Street) in a self-owned multi-story building with an area of 2,775 sq. m., consisting of three storeys, a ground floor and four storeys. The building stands on a plot of land 1,000 sq. m. in area.

It was engaged in two sectors of activity: the production of electronic fibres for military use and the production and development of computer programmes. The company produced various types of fibres such as time-fibres and time-permeation fibres and was the exclusive supplier of the Greek Army. It should be noted that prior approval from the Ministry of National Defence is needed before the technical know-how for fibre production can be sold.

The company has also developed various software programmes such as those intended for war industries, M.I.S., hospitals, etc. The company has also participated in E.C. research programmes and has developed digital telephony exchange (PABX).

Other data concerning the public asset

Prospective buyers, on providing a written undertaking of confidentiality, may receive the offering memorandum from the offices of the liquidating company. They shall also have access to any other information they may seek and may visit the premises of the company under liquidation.

The offering memorandum will describe in detail the total assets of ALPHA S.A. and will contain every useful information for the prospective buyer.

The management of the public auction for the highest bidder will be published within the mentioned time limit and in the same newspaper.

For any further details or information please apply to:

a) GREEK EXPORTS S.A., 17 Pausanias Street, 1st floor, Athens, Greece. Tel: +30-1-3234111 Fax: +30-1-3234185.

b) The head office of E.T.B.A. S.A. Directorate of Public Holdings, 87 Syngrou Avenue, 4th floor, Athens, Greece. Tel: +30-1-4224611 and 4224613.

Kyushu Leasing Service Co., Ltd.

U.S. \$75,000,000

Guaranteed Floating Rate Notes due 1997
(Coupon No. 10)

Pursuant to Note conditions, notice is hereby given that for the interest period 15th February 1995 to 15th August 1995 (181 days), an interest rate of 6.8500 per cent, per annum will apply.

Amount per coupon (No. 10) = U.S. \$71.57
Payable on the 15th August 1995

UTCB

The Long-Term Credit Bank of Japan, Limited
London Branch
Agent Bank

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ASIA MIDAS FUND PLC

US\$10,000,000

Floating Rate Note due 1996

Notice is hereby given that the above Note will be redeemed in full by the issuer on March 8, 1995 in accordance with the Terms and Conditions of the Notes as set out in the Private Placing Memorandum of the Issuer dated February 24, 1994.

GREEK EXTERNAL STERLING DEBT

Assented Bonds of the 5% Loan of 1881
Assented Bonds of the 5% Loan of 1884
Assented Bonds of the 4% Loan of 1887
Assented Bonds of the 7% Loan of 1924
Assented Bonds of the 6% Loan of 1928 (S&R)
Funded Bonds of the 5% Loan of 1881

Hambros Bank announces on behalf of the Ministry of Finance of the Hellenic Republic that the sinking fund obligation of 1994 has been met by the drawing of Bonds as detailed below:-

Assented Bonds Drawn for Redemption:-

£233,200 nominal of the 5% 1881 Assented Bonds have been drawn (represented by 98 Bonds of £100 nominal and 117 of £200 nominal). £77,340 nominal of the 5% 1884 Assented Bonds have been drawn (represented by 387 Bonds of £20 nominal). £233,100 nominal of the 4% 1887 Assented Bonds have been drawn (represented by 909 Bonds of £100 nominal and 91 Bonds of £200 nominal). £35,360 nominal of the 7% 1924 Assented Bonds have been drawn (represented by 13268 Bonds of £20 nominal). £359,780 nominal of the 6% 1928 Stabilisation and Refinance Assented Bonds have been drawn (represented by 634 Bonds of £20 nominal, 3411 Bonds of £100 nominal, 72 Bonds of £500 nominal).

Funded Bonds Drawn for Redemption:-

£92,700 nominal of the 5% 1881 Funded Bonds have been drawn (represented by 1310 Bonds of £50 nominal, 272 Bonds of £200 nominal).

Bonds should be presented with Coupons attached as follows:-

Assented Bonds 1881 5% Coupons 66-70 attached
Assented Bonds 1884 5% Coupons 66-70 attached
Assented Bonds 1887 4% Coupons 66-70 attached
Assented Bonds 1924 7% Coupons 65-70 attached
Assented Bonds 1928 (S&R) 6% Coupons 66-70 attached
Funded Bonds 1881 5% Coupons 66-70 attached

Holders are asked to note that interest will accrue on the 4%, 5% and 6% Bonds up to and including the 15th March 1995 and the 7% Bonds up to and including 15th March 1995 as shown below:-

Interest in respect of Bonds payable 15th March 1995:-

Loan	Bond Denomination	Interest Payable
5% 1881 Assented Bond	£100	£0.5139
	£200	£1.0278
5% 1884 Assented Bond	£20	£0.1028
4% 1887 Assented Bond	£100	£0.8222
	£200	£1.6444
6% 1928 S&R Assented Bond	£20	£0.7333
	£100	£3.6667
	£500	£18.3333
5% 1881 Funded Bond	£50	£0.2569
	£100	£0.5139

Interest in respect of Bonds payable 15th March 1995:-

Loan	Bond Denomination	Interest Payable
7% 1924 Assented Bond	£20	£0.2825

In respect of the Bonds circulating outside the Hellenic Republic, presentation for payment may be made between the hours of 10.00 a.m. and 2.00 p.m. on any business day to Hambros Bank Ltd, Cashiers, 41 Tower Hill, London EC3N 4HA from whom the list of serial numbers of the drawn Bonds may be obtained. Bonds must be left for three clear business days for examination.

15th February 1995

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
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The group faces legal action over its pacemaker, writes Nikki Tait



BNH
Cheung Kong
Finance
China Limited
(incorporated in the Cayman Islands with limited liability)

U.S. \$350,000,000

Exchangeable Guaranteed Floating Rate Notes due 1999

guaranteed by
Cheung Kong (Holdings) Limited
(incorporated in Hong Kong with limited liability)

and exchangeable into shares of
Cheung Kong Holdings (China) Limited
(incorporated in Hong Kong with limited liability)

Notice is hereby given that for the Interest Period 14th February, 1995 to 15th May, 1995, the Notes will carry a Rate of Interest of 6.75 per cent. per annum. The Interest Amounts per U.S. \$250,000 Note will be U.S. \$4,318.75, payable on 15th May, 1995.

Attention: the Legal Counsel, PricewaterhouseCoopers

Bankers Trust Company, London Agent Bank

L'ORÉAL

ANNUAL SALES: + 18.5%

In 1994 consolidated sales for L'ORÉAL, and its French and foreign subsidiaries totalled FF 478 billion, up 18.5% compared to 1993.

L'ORÉAL's total consolidated cosmetics sales, under the Group's new structure, grew by 20.4% and sales for the subsidiary Synthelabo rose 12.9%.

As of 1 July 1994, Cosmar Inc. USA, Cosmar Canada Inc. and L'Oréal (Switzerland) have been consolidated into the L'ORÉAL Group, along with 49% of Procosas (Spain).

On a directly comparable basis, that is based on the new Group structure and 31 December 1994 exchange rates, consolidated sales for L'ORÉAL in 1994 increased by 8%. This reflects improved internal growth compared to 1993.

Pro forma Group consolidated sales in 1994 rose to FF \$1.7 billion.

Group profits have not yet finalised, but, as predicted, they should rise by slightly more than the increase in sales.

Further information on the Group worldwide can be obtained by writing to the Investor Relations and Business Information Department, L'ORÉAL, Office No: AO 403, 41, rue Marbe - 92117 CLICHY (FRANCE). Fax No: (33-1) 47 56 80 02.

1

Notice
ADELAIDE BANK LIMITED
USD 250,000,000
MULTIPLE OPTION FACILITY
AGREEMENT
DATED MARCH 25, 1994

In accordance with the provisions of the Transferable Loan Certificate issued on May 11, 1994, notice is hereby given that for the three months interval period from February 14, 1995 to May 15, 1995, the Certificate will carry an interest rate of 8.00% per annum.

 Bankers Trust P.L.C. Hong Kong
c/o Equi-Trust Ltd.

1. 1.1.1.1 1.1.1.1

STRATEGIC ADVICE CREATED VALUE FOR OUR CLIENTS IN MERGERS AND ACQUISITIONS.

Automotive

Abex Inc.
sold its Abex Friction Products Division to
Cooper Industries, Inc.
\$207,400,000

Detroit Diesel Corporation
acquired VMI Motori SpA from
Montagu Private Equity Limited
\$125,000,000

Sociedad Española del Acumulador Tudor S.A.
was acquired by
Exide Corporation
\$380,000,000

Snap-on Incorporated
sold Systems Control Inc. to
McCown De Leeuw & Co.
Value not disclosed

SPX Corporation
acquired the 49% interest it did not already own in
Sealed Power Technologies Limited Partnership from
Riken Corporation
\$239,000,000

Truck Components Inc.
was acquired by
Castle Harlan Partners II, L.P.
\$164,000,000

Chemical

CBi Industries, Inc.
successful defense against unsolicited offer for its
Liquid Carbonic subsidiary received from
Airgas Inc.
\$1,450,000,000

W.R. Grace & Co.
sold its Pinnick Products Business to
a new company, formed by management and
Citicorp Venture Capital
\$142,000,000

W.R. Grace & Co.
sold its Battery Separators Business to a subsidiary of
The Inter Tech Group, Inc.
Value not disclosed

Monsanto Company
agreed to acquire the Kelco Division of
Merck & Co. Inc.
\$1,075,000,000

Construction, Building Materials & Engineering

CRSS Inc.
sold CRS Sirmic Engineers and
CRSS Constructors International to
Jacobs Engineering Group Inc.
\$33,500,000

CRSS Inc.
sold CRSS Architects Inc. to
Hellmuth Obata & Kassabaum Inc.
\$7,000,000

Fibreboard Corporation
successful defense against unsolicited offer from
a group led by Carl Pohlad
\$189,000,000

"Holderbank" Financière Glarus AG
acquired the outstanding public interest in Hiltlman Inc.
through its wholly-owned subsidiary
Holdernam Inc.
\$54,000,000

**Holdernam S.A. (subsidiary of
"Holderbank" Financière Glarus AG)**
sold Loxam S.A. to an investor group led by
Unim d'Etudes et d'Investissements which is
controlled by
Crédit Agricole
Value not disclosed

**Société D'Études et Installations Industrielles
CNUD S.A.**
was acquired by
B.M.T. Group
Value not disclosed

Financial Services

Alleghany Corporation
sold Sacramento Savings Bank to
First Interstate Bancorp
\$331,000,000

AMFED Financial, Inc.
acquired
First Western Financial Corporation
\$61,200,000

Andover Bancorp, Inc.
agreed to acquire
Finest Financial Corporation
\$19,900,000

AT&T Capital Corporation
acquired certain venture, leasing and finance companies
(CFLI Leasing International) from
Banco Central Hispanoamericano S.A.
Value not disclosed

Cragin Financial Corp.

was acquired by a subsidiary of
ABN AMRO Holding N.V.

Bank of Boston Corporation
acquired
Pioneer Bank
\$118,000,000

Bank of Boston Corporation
sold nonperforming commercial and residential loans
to undisclosed buyers
\$339,000,000

Bank of Boston Corporation
agreed to acquire
Ganis Credit Corp.
\$36,000,000

Bank of the West
(subsidiary of Banque Nationale de Paris Group)
acquired 15 California branches of
Citibank, FSB
Value not disclosed

BankWorcester Corporation
was acquired by
Bank of Boston Corporation
\$247,000,000

BB&T Financial Corporation
agreed to merge with
Southern National Corporation
\$2,200,000,000

Citizens Financial Group, Inc.
acquired Old Stone Federal Savings Bank from
The Resolution Trust Corporation
\$133,600,000

The Colonial Group, Inc.
agreed to be acquired by
Liberty Mutual Insurance Company
\$415,000,000

CoreStates Financial Corp.
acquired
Constellation Bancorp
\$320,000,000

CoreStates Financial Corp.
sold nonperforming commercial real estate loans and assets
to an undisclosed buyer
\$120,000,000

Cragin Financial Corp.
was acquired by a subsidiary of
ABN AMRO Holding N.V.
\$550,000,000

Crestmont Financial Corporation
was acquired by
The Summit Bancorporation
\$95,600,000

CrossLand Federal Savings Bank
sold nonperforming commercial and residential loans
to undisclosed buyers
\$243,000,000

Dime Bancorp, Inc.
merged with
Anchor Bancorp, Inc.
\$1,200,000,000

The Dime Savings Bank of New York, FSB
sold nonperforming residential loans
to undisclosed buyers
\$324,000,000

Firststar Corporation
agreed to acquire
First Colonial Bankshares Corporation
\$314,000,000

CFC Financial Corporation
acquired TriCon Capital Corporation from
Bell Atlantic Corporation
\$1,797,500,000

The Greengate Savings Bank
sold nonperforming residential loans
to an undisclosed buyer
\$250,000,000

Household International, Inc.
participated in a credit card joint venture with
Grupo Financiero Invermexico, S.A. de C.V.
Value not disclosed

The Long Island Savings Bank, FSB
sold nonperforming residential loans and assets
to an undisclosed buyer
\$156,000,000

New Valley Corporation
sold Western Union Financial Services, Inc. to
First Financial Management Corporation
\$1,193,223,000

One Valley Bancorp of West Virginia, Inc.
acquired
Mountaineer Bankshares of West Virginia, Inc.
\$130,000,000

Pulte Corporation
sold performing residential loans
of First Heights Bank to undisclosed buyers
\$559,651,000

Pulte Corporation
sold 22 First Heights Bank branches to
Compass Bankshares, Inc.
Value not disclosed

Pulte Corporation
sold 9 First Heights Bank branches to
Independent Bancorp Inc.
Value not disclosed

Roosevelt Financial Group, Inc.
acquired
Farm & Home Financial Corporation
\$258,000,000

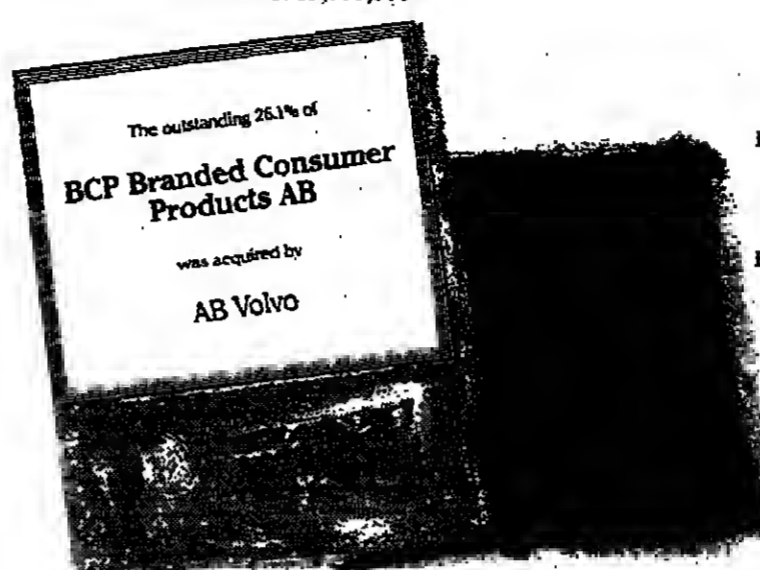
The Van Kampen Merritt Companies, Inc.
an affiliate of
Clayton, Dubilier & Rice, Inc.
acquired American Capital Management & Research, Inc. from
Travelers, Inc.
\$430,000,000

Food, Beverage & Consumer Products

The Bagel Place, Inc.
was acquired by
Specialty Foods Corporation
Value not disclosed

B.A.T. Industries p.l.c.
acquired The American Tobacco Company from
American Brands Inc.
\$1,000,000,000

The outstanding 26.1% of
BCP Branded Consumer Products AB
was acquired by
AB Volvo
\$985,000,000



Deere & Company
acquired the Homebrew Division of
Textron Inc.
Value not disclosed

G. Heileman Brewing Company, Inc.
was acquired by
Hicks, Muse, Tate & Furst, Inc.
\$390,000,000

Institutional Financing Services, Inc.
was acquired by
Tyler Corporation
\$53,000,000

PacificCorp Financial Services, Inc.
sold Vermont Castings, Inc. to
Rosecliff, Inc.
Value not disclosed

Pilliod Holding Company
an affiliate of
Clayton, Dubilier & Rice, Inc.
was acquired by
LADD Furniture, Inc.
\$54,000,000

U.S.A. Foods, Inc.
a Merrill Lynch Capital Partners, Inc. affiliate
acquired
Cabana Foods
Value not disclosed

U.S.A. Foods, Inc.
a Merrill Lynch Capital Partners, Inc. affiliate
acquired Anderson Bakery Company, Inc. from
Stix AG
Value not disclosed

Health Care

Boston Scientific Corporation
agreed to acquire
SCIMED Life Systems, Inc.
\$1,007,000,000

Boston Scientific Corporation
agreed to acquire
Cardiovascular Imaging Systems Inc.
\$98,500,000



Care Enterprises, Inc.
merged with
Regency Health Services, Inc.
\$161,000,000

Columbia Healthcare Corporation
merged with
HCA-Hospital Corporation of America
to form
Columbia/HCA Healthcare Corporation
\$7,909,800,000

Complete Health Services, Inc.
was acquired by
United HealthCare Corporation
\$237,500,000

Eckerd Corporation
sold Inova-Care Holdings, Inc. to
Beverly Enterprises, Inc.
\$112,000,000

**Exeter Health Resources, Inc. and
The Frisbie Foundation**
sold Path Lab, Inc. to
Long Term Care Services, Inc.
with its equity partners,
Madison Dearborn Partners and
First Union Capital Partners
Value not disclosed

Hafslund Nymcomed AS
acquired the Medical Imaging Business of
Sanofi Winthrop from
Elf Sanofi SA
\$450,000,000

HealthTrust, Inc.-The Hospital Company
agreed to merge with
Columbia/HCA Healthcare Corporation
\$5,260,000,000

HealthTrust, Inc.-The Hospital Company
acquired
EPIC Holdings, Inc.
\$1,004,000,000

Interspec, Inc.
was acquired by
Advanced Technology Laboratories, Inc.
\$52,400,000

Medical Marketing Group, Inc.
was acquired by
Medco Containment Services, Inc.
\$145,200,000

Millipore Corporation
sold its BioSearch Division to
Perceptive Biosystems, Inc.
Value not disclosed

National Medical Enterprises, Inc.
sold 40 psychiatric inpatient facilities to
Charter Medical Corporation
\$172,000,000

Ramsay-HMO, Inc.
was acquired by
United HealthCare Corporation
\$562,500,000

Industrial

Adams Industries, Inc.
sold its Tacon
was acquired by
Smiths Industries plc
\$32,000,000

AXIA Incorporated
was acquired by
CORTEC Group, Inc.
\$76,000,000

Cooper Industries, Inc.
sold its Capromex Forged Products Division to
Wyman-Gordon Company
for a 48% equity interest in Wyman-Gordon Company
\$107,000,000

Elsag Bailey Process Automation NV
acquired
Fischer & Porter Company
\$186,000,000

Elsag Bailey Process Automation NV
sold the Italian Operations of Fischer & Porter Company to
Finmeccanica SpA
Value not disclosed

Esab AB
was acquired by
CHARTER plc
\$681,000,000

General Signal Corporation
acquired
Fairbanks Morse Pump Corporation
Value not disclosed

INDRESCO Inc.
acquired REFLEX from
Industrias Penoles, S.A. de C.V.
\$75,000,000

The Jordan Company
sold Polaris Pool Systems, Inc. to
Lincolnshire Equity Fund
Value not disclosed

Thomas & Betts Corporation
sold Vitatron Inc. to
Vishay Intertechnology Inc.
\$184,000,000

Tyco International Ltd.
acquired
Kendall International, Inc.
\$1,430,000,000

Westinghouse Electric Corporation
sold Gladwin Corporation to
Primacor-Gladwin Corporation
Value not disclosed

Insurance

John Deere Insurance Group, Inc.
agreed to sell its stake in Re Capital Corporation to
Zurich Reinsurance Centre Holdings, Inc.
\$57,000,000

Friends Provident Life Office
acquired NM Life Assurance Ireland Limited from
The National Mutual Life Association of
Australasia Limited
\$16,000,000

USLICO Corporation
merged with
The NWNL Companies, Inc.
\$325,000,000

WellPoint Health Networks Inc.
acquired
UniCARE Financial Corp.
\$157,800,000

Lodging & Gaming

Caesars World, Inc.
agreed to be acquired by
ITT Corporation
\$1,785,000,000

Hospitality Franchise Systems, Inc.
distributed to its shareholders through a spinoff
all the common stock of
National Gaming Corp.
\$67,500,000

Natural Resources

Baker Hughes Incorporated
sold Envision Pumpsystems to
The Weir Group Plc
\$210,000,000

BJ Services Company
agreed to acquire
Western Company of North America
\$500,000,000

Cabot Oil & Gas Corporation
acquired Washington Energy Resources Company from
Washington Energy Company
\$168,000,000

Coflexip S.A.
acquired Stena Offshore N.V. from
Stena AB
\$343,451,000

DEKALB Energy Company
agreed to merge with
Apache Corporation
\$285,000,000

Dresser Industries, Inc.
sold its 64% interest in M-I Drilling Fluids Co. to
Smith International Inc.
\$160,000,000

Heda Mining Company
acquired
Equinox Resources Limited
\$76,000,000

Nabors Industries, Inc.
acquired
Sundowner Offshore Services, Inc.
\$100,000,000

NorAm Energy Corporation
sold its Natural Gas Pipeline System in Kansas to
UtiliCorp United
\$25,000,000

North Canadian Oils Limited
(subsidiary of Norcen Energy Resources Limited)
agreed to sell North Canadian Power Inc. to
General Public Utilities Corporation
\$72,000,000

Novogas
(subsidiary of Groupe Primagaz)
acquired Liquefied Gas from a subsidiary of
Ente Nazionale Idrocarburi
\$146,000,000



Oil & Gas Rental Services, Inc.
sold its Cargo Vessel Division to
Hornbeck Offshore Services, Inc.
\$46,000,000

Panhandle Eastern Corporation
acquired
Associated Natural Gas Corporation
\$830,000,000

Panhandle Eastern Corporation
acquired Winnie Pipeline Co. In-state Pipeline,
Spindletop Gas Storage Facility and Liquid Energy Corp.
natural gas processing plant from
Mitchell Energy & Development Corporation
\$120,000,000

J.R. Simplot
proposed to acquire the
Class A voting common stock of
Box Energy Corporation
\$48,752,000

Specialty Oil Companies
was acquired by
Quaker State Corporation
\$130,000,000

Transco Energy Company
agreed to be acquired by
The Williams Companies, Inc.
\$3,000,000,000

United Meridian Corporation
acquired
General Atlantic Resources, Inc.
\$197,000,000

Westmoreland Coal Company
sold the assets of Kentucky Criterion Coal Company to
CONSOL Inc.
\$81,000,000

YPF Sociedad Anónima
sold its interest in
The Rio Neuquen Oil and Gas Concession to
Compañía Naviera Pérez Companc SA
\$160,829,000

Paper & Forest Products

Enso-Gutzeit Oy
acquired the 42.2% it did not already own of
Berghuizer Papierfabriek N.V.
\$25,000,000

Mail-Well Corporation
a company formed by
The Sterling Group, Inc.
acquired American Envelope Company from
CC Industries, Inc.
\$92,000,000

Mail-Well Corporation
a company formed by
The Sterling Group, Inc.
acquired the assets of G-P Envelope Holdings, Inc. from
Georgia-Pacific Corporation
\$155,000,000

Power & Utilities

The Cincinnati Gas & Electric Company
merged with PSI Resources, Inc. to form
CINergy Corp.
\$7,000,000,000

Delmarva Power & Light Company
agreed to acquire Conowingo Power Company from
PECO Energy Company
\$150,000,000

Gas Ventures Advisers
sold a 51% stake to
British Gas Plc
Value not disclosed

Potomac Electric Power Company
acquired Columbia LNG Corporation from
Columbia Gas System Inc.
Value not disclosed

Public Service Company of Colorado
sold West Gas Gathering, Inc. to
Red Cedar Gathering Co.
Value not disclosed

The State of Queensland, Australia
valued the Gladstone Power Station
which was subsequently sold to
Comalco Ltd.
\$533,000,000

Real Estate

CRIMI MAE, Inc.
agreed to acquire the mortgage businesses of
CRI, Inc.
Value not disclosed

Franchise Finance Corporation of America Partnerships
reorganized through the consolidation of 11 limited
partnerships into a real estate investment trust
\$817,000,000

Health and Retirement Properties Trust
acquired 14 retirement communities from
Host Marriott Corporation
\$320,000,000

Highwoods Properties, Inc.
agreed to merge with
Forsyth Properties, Inc.
\$169,200,000

The Horsham Corporation
acquired a 48% interest in
Trizec Corporation Ltd.
\$479,000,000

Realty Income Corporation Partnerships
reorganized through the consolidation of 23 limited
partnerships into a real estate investment trust
\$404,000,000

The Shurgard Partnerships
successful defense in response to an unsolicited
tender offer made by
U-Haul International, Inc.
Not applicable

Shurgard Storage Centers, Inc.
reorganized through the consolidation of 17 limited
partnerships into a real estate investment trust
\$387,000,000

Simco Property Group, Inc.
acquired three regional malls from
Corporate Property Investors
\$153,000,000

Starwood Capital Group, L.P.
agreed to acquire a 70% stake in
Hotel Investors Trust
\$300,000,000

Wellsford Residential Property Trust
acquired
Holly Residential Properties, Inc.
\$249,354,000

Retail

Adam, Meldrum & Anderson Co., Inc.
was acquired by
The Bon-Ton Stores, Inc.
\$24,600,000

Calumet Holdings, Inc.
was acquired by
Wolseley PLC
\$42,300,000

A.D. Clark, Inc.
agreed to be acquired by
American Stores Company
\$35,000,000

Fleming Companies, Inc.
acquired Scriven, Inc. from
Franz Haniel & Cie GmbH
\$1,085,000,000

Istituto per la Ricostruzione Industriale (IRI)
agreed to sell SME SpA to a consortium led by
Edizione Holding (Benetton Family),
Mövenpick, Leonardo Finanziaria (Luxottica)
and CREDIOP
(co-advisor)
\$1,400,000,000



Kmart Corporation
sold Pay Less Drug Stores Northwest, Inc. to
Thirty Day PayLess, Inc., a company controlled by
Leonard Green & Partners, L.P.
\$1,000,000,000

R.H. Macy & Co., Inc.
merged with
Federated Department Stores, Inc.
\$4,100,000,000

Merrill Lynch Capital Partners, Inc.
acquired
P.C. Accessories Inc.
Value not disclosed

Supermarkets General Holdings Corporation
sold Rickett Home Centers to
Eos Partners, L.P.
Value not disclosed

E.M. Warburg, Pincus & Co., Inc.
acquired the Retail Operations of
Petrie Stores Corporation
\$190,000,000

Wherehouse Entertainment, Inc.
a Merrill Lynch Capital Partners, Inc. affiliate acquired
Pegasus Music and Video, Inc.
Value not disclosed

Wherehouse Entertainment, Inc.
a Merrill Lynch Capital Partners, Inc. affiliate acquired
The Record Shop, Inc.
Value not disclosed

Woolworth Corporation
sold 122 Woolco discount department stores to
Wal-Mart Stores, Inc.
\$300,000,000

Telecommunications, Media & Technology

Blockbuster Entertainment Corporation
merged with
Viacom Inc.
\$8,400,000,000

Blockbuster Entertainment Corporation
acquired 22.7 million shares of Viacom Inc. Class B
Common Stock to facilitate Viacom Inc.'s acquisition of
Paramount Communications Inc.
\$1,250,000,000

Blockbuster Entertainment Corporation
affiliates
Spelling Entertainment Group Inc.
and Republic Pictures Corporation
combined by merger
\$100,000,000

Cablevision of Chicago, L.P.
agreed to sell its cable television systems to
Continental Cablevision
Value not disclosed

Central Newspapers, Inc.
acquired an additional 18.7% stake in
Indianapolis Newspapers, Inc.
\$35,910,000

General Motors Corporation
proposed to contribute 177 million Class E Shares relating
to GM's Electronic Data Systems subsidiary to the
General Motors Pension Fund
\$6,239,000,000

GTE Corporation
agreed to acquire the remaining 10% stake
it did not already own in
Contel Cellular, Inc.
\$255,000,000

GTE Corporation
sold GTE Control Devices, Inc. to
Hammond, Kennedy, Whitney & Company, Inc.
Value not disclosed

Hyundai Electronics Industries Co., Ltd.
agreed to acquire the
NCR Microelectronics Products Division of
AT&T Global Information
Solutions Company
Value not disclosed

ITC Entertainment Group Inc.
was acquired by
PolyGram N.V.
\$156,000,000

Liberty Media Corporation
merged with
Tele-Communications, Inc.
\$4,400,000,000

MCI Communications Corporation
sold a 20% stake to
BT Plc
\$4,300,000,000

ML Media Partners, L.P.
agreed to sell its
California cable television systems to
Century Communications Corp.
Value not disclosed

NEXTEL Communications, Inc.
agreed in principle to acquire
Dial Page, Inc.
\$1,100,000,000

NEXTEL Communications, Inc.
agreed to acquire the 800 MHz Specialized Mobile Radio
licenses and ancillary assets in 50 states and the
District of Columbia from
Motorola, Inc.
\$1,659,000,000

NEXTEL Communications, Inc.
agreed to acquire
OneComm Corporation
\$700,000,000

Pacific Telesis Group
advised on the formation of a special purpose trust
to provide for the development of its
consumer broadband network
\$2,000,000,000

Revere Holding Corp.
a Merrill Lynch Capital Partners, Inc. affiliate
acquired Revere National Corporation and
Stair Outdoor Advertising Co. from
Castle Harlan Inc.
and the principal assets of
Mail Advertising & Promotions, Inc.
Value not disclosed



SBC International, Inc.
Southwestern Bell Mobile Systems, Inc.
(subsidiaries of SBC Communications Inc.)
have entered into a strategic alliance with
Compagnie Générale des Eaux
to form Compagnie Transatlantique de
Radiotéléphonie Cellulaire and
Washington/Baltimore Cellular Limited Partnership
\$5,150,000,000

Tribune Company
acquired
Thomas C. Wright Inc.
\$100,000,000

Tribune Company
acquired a minority equity stake in
Checkfree Corporation
Value not disclosed

Tribune Company/Qwest Broadcasting L.L.C.
agreed to acquire
WATL-TV (Atlanta) from Fox Broadcasting
and WNOL-TV (New Orleans) from
Quincy Jones Broadcasting in partnership
with Time Warner Inc.
\$167,000,000

The Westlink Company
a Merrill Lynch Capital Partners, Inc. affiliate
acquired US West Paging, Inc. from
US West New Vector Group, Inc.
Value not disclosed

Textile & Apparel

Brentex Mills, Inc.
was acquired by
Mount Vernon Mills, Inc.
Value not disclosed

Lincolnshire Management, Inc.
acquired the Unilever Spinnery division of
United Merchants and Manufacturers, Inc.
Value not disclosed

Nine West Group Inc.
agreed on the basic economic terms for its pending
acquisition of the Footwear Business of
U.S. Shoe Corporation
\$600,000,000

Transportation

Air Partners II, L.P. and Continental Airlines, Inc.
along with Mesa Airlines, Inc. and Fidelity Management
& Research Co., acquired a controlling interest in
America West Airlines, Inc.
upon its emergence from Chapter 11
\$2,300,000,000

Commonwealth of Australia
provided advice in relation to privatization of
Qantas Airways Limited
Value not disclosed

Tiphook plc
sold its Container Operations to
Transamerica Corporation
(advised in relation to negotiations with U.S. bondholders)
\$1,127,900,000

Merrill Lynch
A tradition of trust.

COMPANY NEWS: UK

Buoyant chemical prices help group to show best quarterly performance since 1990

BP turns in 36% advance to £427m

By Robert Corzine

Buoyant chemical prices boosted British Petroleum's fourth quarter replacement cost profits to £427m, a 36 per cent rise on 1994's £314m, and the company's best quarterly performance since 1990.

The results, which were at the top end of analysts' expectations, took full year profits to £1.48bn, 32 per cent up on 1994's £1.12bn. The shares closed down 7p at 419p.

Fourth quarter earnings per share were 7.5p, compared with 5.8p in 1994. The full year figure was 27.1p (20.7p).

The results were achieved in spite of a 6 per cent fall in crude oil prices and a 21 per cent decline in refining mar-

gins, the steepest such fall in seven years.

The confident mood of the BP board was reflected in a 20 per cent rise in the quarterly dividend to 3p a share, against 2.5p in the previous three quarters and 2.1p a year earlier.

The dividend is still lower than the peak rate of 18.8p in 1992, but Mr David Simon, chief executive, said the company was committed to a "competitive" dividend policy.

Lord Ashburton, chairman, said BP was now generating substantial free cash flow, enhancing the board's flexibility in allocating the surplus between dividend growth, capital expenditure and further debt reductions.

The message from Mr Simon

was that BP was on track to meet new performance targets set in December last year in spite of a tough operating environment in most market segments aside from chemicals.

The chemical profits of £223m were the highest since 1990.

Margins, which began to widen dramatically in the fourth quarter, were likely to improve further, at least in the early part of 1995.

Exploration and production profits proved more resilient than many analysts expected. Operating profits of £522m were five per cent up on the third quarter and the best since the end of 1990.

But full year operating profits of £1.87bn were down some-

what on 1994's £1.93bn.

Marketing margins were stable in spite of recent unseasonably warm weather in the northern hemisphere. Mr Simon said underlying demand for petroleum products was "fairly healthy," given the expectation of continuing economic growth in the industrialised countries.

The sharp decline in refining margins in the fourth quarter was mainly due to special factors in the US.

But the 20 per cent average decline over the year, attributed to new capacity coming onstream, was a "significant number," he said.

Strong cash flow, lower capital expenditure and disposal income allowed BP to repay

\$1.93bn last year. Debt, set to fall to \$8bn by 1997, was down to \$10.5bn at the end of 1994, with gearing at 80 per cent.

The reduction in debt led to a 20 per cent fall in interest charges last year to £542m.

BP is to expand its capital expenditure programme in 1995.

But Mr Simon said the company was using its assets more effectively, with an 11.5 per cent return on capital employed last year. This figure is toward the top of the industry range.

In addition BP was directing a greater share of its capital expenditure to fast growing markets in Asia and Latin America.

See Lex

LEX COMMENT

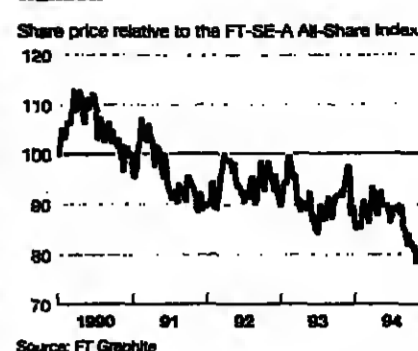
Cyclical Hanson

Once again, the momentum of profits growth at Quantum Chemicals is exceeding expectations. Increased contributions from Quantum and the propane business purchased with it added about £75m to Hanson's first quarter profits. Overall, Quantum should boost group earnings per share by about 13 per cent this year, demonstrating that Hanson can still add substantial value through acquisition, in spite of its size.

The problem for Hanson is what happens when Quantum's earnings cycle turns downwards. Taking out Quantum and the impact of the 1993 US coal strike, core profits growth came to about 16 per cent, against a headline figure of 58 per cent. Even this was flattened by bulk buying of cigarettes before the UK's second budget, artificially boosting Imperial Tobacco sales. Overall, the cyclical businesses performed well, apart from timber. But when the cycle turns, steadier businesses such as propane, coal and cigarettes will not prevent an overall profits decline.

With gearing down to 58 per cent, Hanson could handle a £2bn acquisition of a business with a solid balance sheet. Given its evident desire for UK non-cyclical earnings, its

Hanson



rumoured interest in electricity distributors is therefore understandable. This would smoothen financial engineering - to off-set advance corporation tax write-offs - and would scarcely offer opportunities for the standard Hanson business turnaround. Nonetheless, until the group can lessen the cyclical emphasis of earnings, its market rating is unlikely to improve.

Reuters advances 16% to £510m

By David Wighton

Reuters, the financial information and news group, reported a 16 per cent rise in 1994 pre-tax profits from £440m to £510m, but warned that underlying revenue growth would be slower in 1995.

Mr Peter Job, chief executive, said the year had generated "exceptional" revenue growth of 23 per cent to £2.31bn (£1.87bn). "It would be difficult to improve on that at the same rate of growth."

He said the group had benefited from strong growth in transactions products, record sales of information products and from significant acquisitions.

He also warned that the problems of some of Reuters customers, particularly those that had suffered from the fall in bond markets a year ago, would have some effect on its business.

"Common sense tells you that if a number of financial institutions are cutting back it must have some impact."

He said that the group's net new orders had peaked in the first quarter of last year, but added: "We have not been snowed under by a wave of cancellations." He also pointed to some positive trends including the recent strong turnover figures on the New York Stock Exchange.

Excluding acquisitions such

as Tektronix and Quotron revenues grew by 17 per cent and margins edged higher. Including the loss-making Quotron, operating margins slipped to 19.9 (20.3) per cent.

The acquisitions boosted revenues from the Americas by 46 per cent to £424m, helped by increased sales of information management systems and good growth from datafeeds and Dealing 2000. But the Americas' contribution rose only 6 per cent to £33m, excluding Instinet, the fast-growing equity dealing system, where profits rose 39 per cent to £53m.

Profits from Asia/Pacific were flat at £175m due to the costs of expansion in China

and India, and the difficult trading conditions in Japan where "a lot of foreign banks are moving out". Profits from Europe rose 17 per cent to £418m. Revenues from emerging markets rose by nearly a third to £188m and Mr Job expressed confidence despite the problems in Mexico.

But Mr Job said that given the opportunities for investment further share-backs were not "at the top of our minds". The £350m share buy-back in 1993 meant that the profit growth translated into a 20 per cent rise in earnings per share to 21.7p (18p).

The shares fell 8 1/2p to 438 1/2p yesterday.

See Lex



Peter Job: 23 per cent revenue growth was 'exceptional'

GKN severs its steel ties with £93m sale of UES minority

By Tim Burt

GKN, the engineering group, yesterday confirmed it was severing ties with the steel industry after almost a decade by selling its minority stake in UES Holdings to British Steel for £93m.

The disposal follows more than three months of talks between the two sides and closes a chapter on the history of United Engineering Steels,

created in 1986 in the biggest government-backed "Phoenix" reorganisation of the steel industry.

"It is a momentous day and marks the end of steel in GKN," said Sir David Lees, chairman, British Steel, which has 63.9 per cent of UES, also welcomed the move and pledged to improve its financial performance.

GKN decided to sell its stake after seeing UES - which

incurred losses of £48.1m in 1993 - move into profit last year. UES made pre-tax profits of £18.2m as rising demand for high grade engineering steel pushed turnover up from £591m to £658m.

Although Sir David admitted that GKN would show a £58.6m loss on the sale of its £152.6m investment in UES, he said it had got the best possible price given the cyclical nature of the industry.

RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends corresponding dividend	Total for year	Total last year
Alstom Tech	1,189 (1,232)	341.2 (185.94)	30.4 (20.2)	6.4	Apr 27	5.85	11	9.75
BP	14,7 (7.05)	2,26 (1.1)	26.8 (1.1)	8.4	May 9	2.1	10.5	8.4
Flying Colours	3,155 (2,899)	1.82 (1.1)	7.69 (5.19)	1.81	Apr 11	1.08	2.36	1.08
Hanson	3,155 (2,899)	272 (72.7)	4 (2.5)	3	Apr 6	2.85	-	11.7
Howard	2,71 (8)	0.104 (0.087)	0.4 (0.14)	nil	-	-	-	0.8
Reuters	2,308 (1,874)	510 (440)	21.7 (18.1)	5.1	May 2	4.85	8	8.5
St Helens	30.9 (7)	13.2 (8.5)	8.2 (2.2)	1.1	Apr 14	0.7	1.6	1
Investment Trusts	540 (10.5)	2.53 (1.91)	1.5 (1.125)	1.5	Mar 30	1.5	-	4.25
Planning Overseas	332.9 (268.8)	3.37 (2.53)	3.45 (3.84)	1.9	Apr 28	1.9	3.4	3.4
Management Overseas	298.5 (232.2)	0.716 (0.528)	1.52 (1.125)	1.52	Mar 31	1.125	-	3
Halford Overseas	112.32 (116.52)	0.461 (0.367)	0.344 (0.52)	0.175	Apr 21	0.175	0.175	0.175
TR Pacific	104.5 (121.23)							

Dividends shown net. Figures in brackets are for corresponding period. £100 = 100 pence. *Companies restated. †After £250.7m exceptional charge. ‡After £250m exceptional credit. †Equivalent after allowing for scrip issue. ‡Gross to non-Jersey residents. †Fourth quarter.

SG Warburg sets up Beijing office

By John Gapper in London and Tony Walker in Beijing

Executives at SG Warburg, the investment bank, have started a review of operations which is expected to lead to job cuts following the resignation of Lord Cairns, the bank's former chief executive.

The bank also disclosed two initiatives in its effort to restore calm following the resignation at the weekend, which came in the wake of the failed attempt to merge with Morgan Stanley, the US bank. It announced both the opening of a rep-

resentative office in Beijing, and the recruitment of a new head of equity sales. The recruitment followed the defection of the two co-heads of equity syndication to Morgan Grenfell last week.

Mr Michael Gore, vice chairman, dismissed suggestions that the leadership upheaval would affect its Asian business. He said Warburg was determined to build on its solid foundation in China where it had been active since the 1970s.

Warburg's Asian staff, excluding Japan and Australia, had grown from 112 to 330 in four years and was still expanding. Mr

Gore said China had a "number of world scale companies" and remained an attractive investment destination.

The five-strong executive committee, led by Sir David Scholey, who has become executive chairman, is to meet this weekend to work on the review, which is thought likely to be completed by the financial year-end in March.

Warburg directors said they would be seeking ways of increasing revenue by selling a wider variety of products. One director said it would "look hard" at UK operations where most costs lay.

HOLT LLOYD INTERNATIONAL

£72.5 million Management Buy-Out of the Holt Lloyd Group from The Morgan Crucible Company PLC

Transaction and Equity arranged by Electra Kingsway Limited

Senior Debt arranged and underwritten by Bank of Scotland

ELECTRA

ASCOT HOLDINGS PLC

Issue of £15 million Unsecured Senior Loan Stock with Warrants

The loan was underwritten by Electra Kingsway Limited

and arranged by Electra Kingsway Limited

ELECTRA

PILLAR

£90 million new capital raised through flotation on the London Stock Exchange

Electra Kingsway Limited participated in the establishment of Pillar Property Investments PLC in February 1992

ELECTRA

ASHBOURNE PLC

£50 million new capital raised through flotation on the London Stock Exchange

Electra Kingsway Limited arranged the Management Buy-Out of Ashbourne PLC in February 1993

ELECTRA

NETLON

Management Buy-Out of Netlon Limited

Equity co-investments and institutional funding provided by Electra Private Equity Partners

ELECTRA

ASCOT HOLDINGS PLC

Issue of £15 million Unsecured Senior Loan Stock with Warrants

The loan was underwritten by Electra Kingsway Limited

and arranged by Electra Kingsway Limited

ELECTRA

Lombard

£16 million new capital raised through flotation on the London Stock Exchange

Electra Kingsway Limited arranged the Management Buy-Out of Lombard in May 1993

ELECTRA

HEALTHCARE

£31 million new capital raised through flotation on the London Stock Exchange

Electra Kingsway Limited arranged the Management Buy-Out of Healthcare in February 1993

ELECTRA

Optical Resources

£117 million Management Buy-Out

Investment of £9.5 million by Electra Private Equity Partners

Transaction led by CVC Capital Partners

ELECTRA

KIPER GROUP

£3 million Refinancing

Transaction co-led and co-arranged by Electra Kingsway Limited

Institutional funding provided by Electra Private Equity Partners and HSBC Bank Limited

ELECTRA

NEURODOLLAR

£37.7 million new capital raised through flotation on the London Stock Exchange

Electra Private Equity Partners invested £13.3 million in the Management Buy-Out of NeuroDollar in August 1993

ELECTRA

KEIKON

Digital Colour Printing Equipment

£8F 947,645,000 Issue of Unsecured Convertible Preferred Stock

Investment of £8F 109,480,000 by Electra Investment Trust PLC

ELECTRA

The principal activity of Electra Kingsway is the provision of equity capital for private companies and unlisted equity instruments for public companies. Funds under our management are invested in a variety of equity transactions where capital is required for management buy-outs and buy-ins, expansion and refinancing. Our principal areas of activity are the UK, Continental Europe and the USA.

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MEMBER OF IMRO

Corporate governance:
Pay issue will not
go away.....Page 11

HOUSING ASSOCIATIONS

Private finance: Will
enthusiastic lending
continue?....Page IV

Wednesday February 15 1995

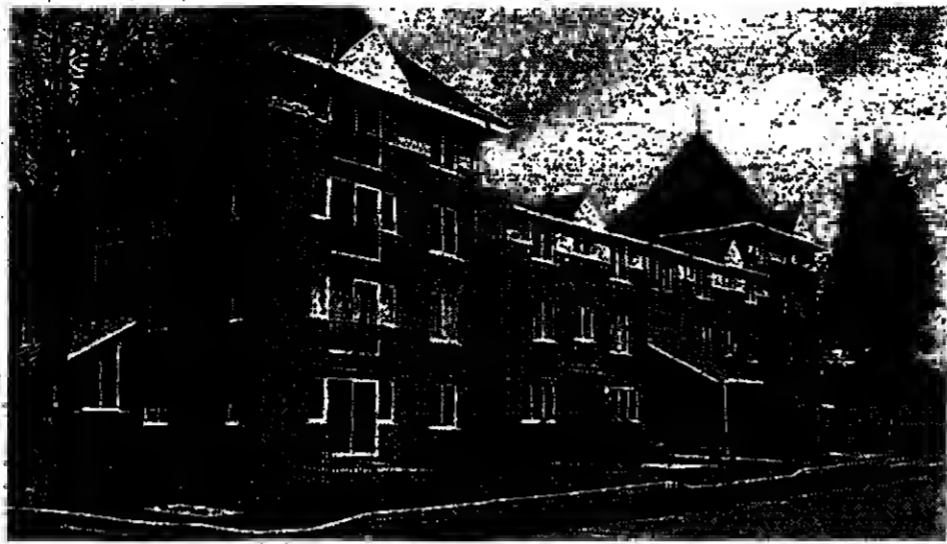
Housing associations are now the UK's principal providers of new social housing. Like building societies, they started off as co-operative, small-scale providers of bricks and mortar for the less affluent. No one still thinks of the Leeds or Halifax, let alone the Abbey National, in those terms, yet the image has stuck to housing associations.

How far does the image belie today's reality? It is misleading in terms of scale. Housing associations now own more than 800,000 homes, some 4 per cent of the total housing stock. In 1992-93, some 63,000 new dwellings were completed by associations; three times as many as in 1981-82. The largest associations - North British, Anchor and North - boast upwards of 20,000 properties each, which puts them on a par with larger local authorities.

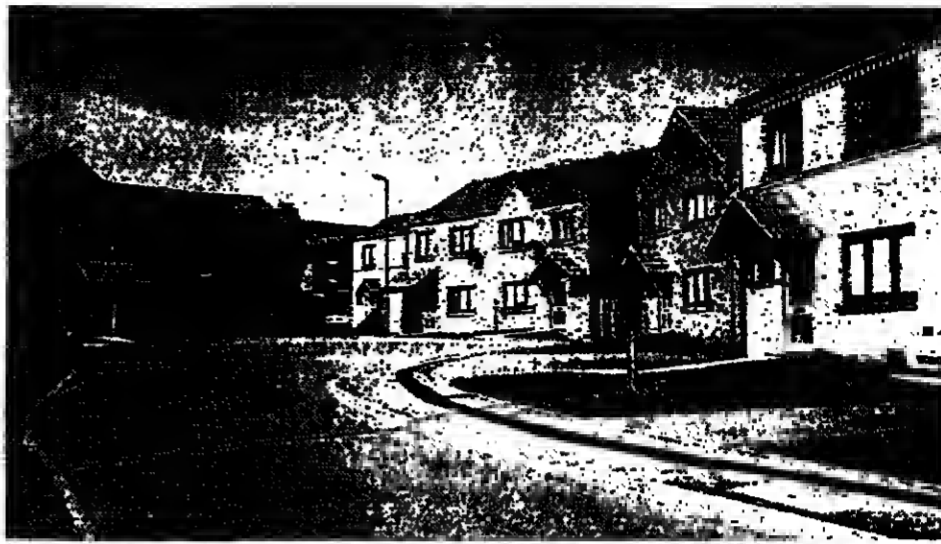
Although the majority of housing associations remain tiny - 50 per cent own fewer than 25 homes - two-thirds of all association homes are owned by just 88 associations, so the majority is atypical from the perspective of tenants and investors.

Investment in the sector has risen dramatically since the 1988 Housing Act, which established the present funding regime. Some £9.7bn of public money has been invested, channelled through the Housing Corporation, the quango responsible for regulating the sector and disbursing government grants to associations, in respect of its mixed funded programme. A further £3.9bn has been raised in private finance to supplement the government spend, and another £2.2bn has been secured to finance the transfer of local authority homes to housing associations.

Each year the government decreases the so-called "grant rate", the proportion of funding for new capital projects it is prepared to make available through the corporation. In 1988, the grant rate averaged 75 per cent; in 1995-96 it will have fallen to 58 per cent. Associations have a private finance requirement of more than £5bn



New homes (left) built by Barratt as part of the Bonamy partnership, with Southwark Council and the South London Family Housing Association... and a development (right) in Derby by the Derwent Housing Association



Principal providers for the insecure

Investment in the sector has risen dramatically in recent years, writes Andrew Adonis. But associations face some daunting challenges

over the next three years. For the larger associations, credit reviews are as important as rent reviews, and investor interest shows no sign of abating.

Mr Anthony Mayer, chief executive of the Housing Corporation, hails housing associations as trail-blazers in the forging of public-private partnerships of the kind the government wants to see across Whitehall through the Private Finance Initiative (PFI) launched three years ago by Mr Norman Lamont, then chancellor. "Rents are for real, so the security is strong," he says. "It is a remarkable success story, with the private finance completely unguaranteed."

When it comes to objectives, however, housing associations are true to their origins. Their clientele remains the poor and insecure, now broadly defined as the lower quartile of households in terms of income. Indeed, many associations - particularly the smaller ones - are unhappy with the pace to the market over the past five years. They argue that the accompanying rent increases deepen the poverty

they exist to ameliorate, and that investment is being skewed towards associations with the most impressive asset portfolios and the least adventurous ideas.

The concentration of investment in the larger associations is undeniable, but the gains do not accept that a lack of initiative has been the result. "We place a high premium on innovation, and on meeting 'niche' needs," says Mr George Barlow, chief executive of Peabody Trust, London's largest association.

Peabody, founded by a Victorian Anglo-American philanthropist, epitomises both the sector's diversity, and the needs it confronts. The trust is far more than a housing association, pioneering a variety of integrated housing, youth and retraining projects.

With valuable estate in central London, Peabody and its associated ventures have raised more than £185m of private finance in the past three years, out of a total investment

Government grant to housing associations*

Year	Sum	HAG**
1980-81	£1.05bn	73%
1981-82	£1.59bn	77%
1982-83	£2.37bn	72%
1983-84	£1.8bn	67%
1984-85	£1.5bn	62%
1985-86	£1.18bn	58%
1986-87	£1.78bn	n.a.
1987-88	£1.192bn	n.a.

* Channelled through the Housing Corporation
** Highest percentage the government can contribute to the funding of a house, n.a. = not available
Source: Housing Corporation

programme of nearly £300m. More than half of the association's new tenants now have an annual income of less than £5,000, and two-thirds are on state benefits. Peabody's average rent is about £37 a week.

Private finance and a more commercial approach to development have not, therefore, turned housing associations into vehicles for rejuvenating the private rented sector for middle-income earners.



Housing Corporation chief Anthony Mayer: 'remarkable success story'

families. On the other hand, at 16m the number of owner-occupied dwellings is at its highest number ever - two-thirds higher than in 1971 - and the British retain a deep economic and psychological attachment to their title deeds.

Whatever the future of the private rented sector, it is unlikely to involve housing associations to a significant degree. Housing investment trusts, private quoted companies enjoying government tax incentives, are in vogue as a means to that end.

Yet demand for social housing is unlikely to slow. Between 1971 and 1993, the proportion of the population with an income below half the average doubled to 21 per cent. While real average incomes grew by 46 per cent over the period, the income of the 26th percentile increased by only 23 per cent.

Nor is sub-standard housing a thing of the past. A 1991 survey found 7.6 per cent of dwellings in England to be unfit.

The region with the highest percentage of unfit dwellings - more than a tenth of the total - was Greater London, which also has the highest rent levels in the country and concentrations of severe poverty.

Associations face further daunting challenge in the demise of local authorities as housing managers. In the past six years, associations have assumed responsibility for 157,000 former council homes on behalf of 35 local authorities. Another nine transfers, involving 32,120 homes, are in the pipeline for the present year.

Associations are expected to win a large share of the potential market of about £900m a year for managing local authority housing, for which tendering will start this year. For councils, the incentive for transfers is stark: their 4m homes are estimated to require about £400m-worth of repairs.

Housing associations may not continue as sole providers of new social housing. The days of local authority construction are over, but plans circulating in Whitehall for new-style local authority companies, in the form of joint ven-

tures with the private sector, could bring councils back into the frame in a new guise. If they do, associations could play a significant role as contract providers of services.

The question of local authority companies will feature largely in the social housing debate over coming months. For housing associations, however, three issues are of more pressing concern: their own funding; the future of the Housing Corporation; and the internal management of housing associations.

The declining grant rate is part of the concern about funding. But, more important, is the sharp cut in last November's Budget in the government funding available through the Housing Corporation. At a stroke, the corporation's development programme for 1995-96 was slashed from £1.43bn to £1.18bn - down from £2.4bn in 1992-93.

As for the corporation, its dual role as funder and regulator of the sector is unlikely to come into immediate question, although some believe the two should be separated. The question is whether its role should be further extended to that of regulator of new local authority housing companies.

Mr Mayer, while careful to stress that "this is a matter for ministers", does not doubt that the corporation has "the necessary competence and capacity" to take on the role.

The issue of internal management of associations will come to the fore next month with a report by a committee of inquiry set up by the National Federation of Housing Associations. Recommendations are likely to focus on steps to bring a greater professional edge to management and investment committees.

The NFHA report will bring into the open the tension between the social and voluntary role of the associations, and their status as multi-million companies with complex commitments and increasing gearing. Whatever changes follow, the tension will remain. Building societies will spend the next few years merging with banks - not housing associations.

Tackling housing needs... helping the economy grow.

Housing associations:

- have raised £6 billion of private finance since 1988
- have produced over 50,000 homes each year since 1992
- provide a key market for the construction industry and keep thousands of building workers in employment
- manage over 1 million homes - one in twenty properties in England
- are helping to regenerate our towns and cities
- are working to build and maintain balanced communities

Orbit
HOUSING ASSOCIATION

KNIGHTSTONE
HOUSING
ASSOCIATION

North
British
Housing
Association

& QUADRANT
LONDON
HOUSING
TRUST

SOUTHERN
HOUSING
GROUP

BN

BRADFORD & NORTHERN
Housing Association

33

Circle Thirty Three Housing Trust Ltd

Peabody
Trust

Home
HOUSING
ASSOCIATION
LIMITED

swale
housing
association

Merseyside
Improved Houses

GUINNESS TRUST

The 12 associations shown above are major providers of housing association homes.

HOUSING ASSOCIATIONS II

POLITICAL INFLUENCES

Growing bill for benefit

The government holds up its record in social housing as a triumph for public-private partnership, and a role model for its private finance initiative.

Mr David Curry, housing and local government minister, reels off the figures. Private lenders have contributed more than £5bn to new housing association projects since 1983. This means, he says, that by March 1995 some 67,000 more homes will have been built than would have been possible from government grants alone.

This, of course, ignores the large and growing bill for housing benefit. This year, the bill is expected to top £10bn, more than double the 1983 figure in real terms. The proportion going to housing association tenants has risen even faster than the rest. About 80 per cent of them receive full or partial housing benefit.

The halving of government grants to housing associations over the past three years and the leap in housing benefit are linked. Government policy is to target people who need subsidy. Average housing association rents have therefore risen from £29 a week in 1983 to £54 a week now, and the government picks up the bulk of the tab through housing benefit. Associations bidding for Housing Corporation funds do not even have to indicate what rents they will charge.

In November, Mr Peter Lilley, Social Security secretary, took the first significant step to limit housing benefit, announcing that such payments would be reduced for tenants paying above-average rents for their type of property in their area.

This is intended to give tenants an incentive to avoid expensive housing. It hardly affects housing associations, because their rents are almost invariably below the local average. Mr Curry claims the changes are "as modest as you can get without disappearing, quite frankly".

However, the capping of housing benefits frightened private lenders. A recent review by IBCA, the European rating agency, speaks of "the intangible political risk which surrounds the sector" - mostly concerning the future of housing benefit.

Mr Curry understands these fears. "There is no point in trying to take measures to curb the benefit if the price is a singular disincentive for the private investor. Now that's a conundrum, because when your housing benefit is going towards £10bn a year, there's no point in sitting back and saying: 'Well, that sort of money doesn't matter, you just ride with it'."

The solution, he suggests, lies in reviving the private rental sector and keeping its rents down, to make the rental market more competitive.

The rise in housing association rents also reduces the incentive for tenants to take low-paid jobs, because of the loss of housing benefit. When a tenant starts earning, up to 97 per cent of his salary can be clawed back in tax and lost benefit.



Peter Lilley: took first significant step



David Curry: reels off the figures

Housing associations warn that their properties could turn into ghettos where only the long-term unemployed could afford to live. Mr Curry is sensitive to the argument: "There comes a point where if rents go up, it's not worth somebody getting up to find a job. We are examining that issue at the moment." Perhaps for that reason, he says he is prepared to see government grants to housing associations rise. "I've always said that I look at it as it comes around each year."

For the past three years the grant has fallen. Mr Curry claims that this has hardly affected housing associations, because during the recession building costs were low. The decline from 79 per cent to 62 per cent in "grant rate" - the government grant per new home - since 1990-91 represents a drop of just 2 per cent in real terms, he says. "We're getting a bigger bang for our buck at the moment."

He also points to the efforts made by associations to raise money cheaply: he cites the recent eurobond issue, based on rent securitisation, brokered by Nomura,

and Sanctuary's tapping of the US bond markets arranged by Hambros.

However, Nationwide and other lenders have warned that they might desert social housing if the grant rate falls further. Mr Curry is sceptical. "Each year the lenders have told us that this was the end of life as we know it, and on the whole life is still there as we always knew it." He thinks this is because lenders have nowhere else to go with their money: "The housing market this year is still pretty sodden. It's certainly not taken off."

In recent years other big ideas have arrived. Housing associations have put up some of the money to help poor people buy their own homes, through shared-ownership and Diyo (DIY shared-ownership) schemes. The take-up on Diyo in a recent quarter was 106 per cent of the original cash provision made for it. Whereas 16 per cent of government funding to housing associations in 1993-94 was to help people buy houses, next year the figure will be 24 per cent.

It is a move on from the "right-to-buy" policy for council tenants in the 1980s, a scheme which Mr Curry says "changed the sociology of Britain more than anything else since the war". Right-to-buy is still yielding tens of thousands of purchases a year. However, a recent report by the Joseph Rowntree Foundation urged the government to shift its funding back to rents, arguing that the stock of rented housing was already too low to allow labour mobility. As ever, Mr Curry says he is flexible on the issue.

Similarly, he is open-minded on the future of the Housing Corporation, the channel for government grant to the housing associations and also their regulator. "Should the regulatory and financial functions continue to be under the same roof?" Mr Curry asks. However, he says "no change" is also an option.

And he is closely watching the National Federation of Housing Associations' corporate governance review. The make-up of housing association management committees is a concern. "I want to make sure they bring in a sensible level of expertise. Of course they will have representatives of the community and that sort of thing."

Depending on what the review suggests, he is thinking of allowing chief executives to sit on management committees. "On occasions when there have been problems, it has usually been because of some lack of communication across that line."

Most radically of all, he is thinking of giving local authorities more scope to manage homes, in joint ventures with private shareholders. For the while, however, he expects housing associations to remain the main providers of social housing. "I haven't got anybody else in my bottom drawer, as it were."

Simon Kuper

CORPORATE GOVERNANCE AND PROBITY

Pay issue will not go away

Mr Clive Barnett, head of housing finance at NatWest Markets, has met quite a few housing association management committees, writes Simon Kuper.

"Reverend Whatever-he-is, the two probation officers; the tenant representatives; the local practising accountant; they're unlikely to have had the experience of dealing with a £50m loan," says Mr Barnett. Once, after he had made a presentation to a committee, its members told him he had been too professional. He had rather frightened them.

The larger housing associations now handle tens of millions of pounds of public money, and have huge debts to private lenders - but their management committees are staffed by volunteers. Some committee members have become alarmed: they are responsible for as much money as the directors of private companies.

But there is a professional aspect to the sector: for example, NatWest has more than £1bn of housing association debt on its books. Medium-to-large associations pay their finance directors and chief executives salaries which range up to £100,000 a year.

Over the last few years, the word in housing associations has changed from "surplus" to "profit", says Mr Keith Schofield, director of financial services at Meridian housing association.

The big worry is the quality of the management committees. Their unpaid members often lack the expertise, the time and the powers to oversee their executives - and protect both taxpayers' and lenders' money.

A survey of lenders by solicitors Denton Hall and the Housing Corporation last month showed that quality of management and governance issues were the main factors that lenders to housing associations consider. The doubts prompted the National Federation of Housing Associations (NFHA) to launch an inquiry into corporate governance, which reports next month.

The NFHA knows that creating impressive management committees will not be enough. The one serious fraud discovered in the sector took place within an association whose committee included a number of City of London high-fliers.

The association in question had, on paper, one of the best committees of any housing association, says Mr James Tickell, assistant chief executive of the NFHA. Yet a £1m maintenance fraud went undiscovered for more than seven years.

Mr Tickell concludes that there needs to be more checks and balances. Some associations do not even have internal audit committees. Some sub-committees, regional committees and subsidiaries operate largely outside the control of the main committee.

Housing associations tend to work with corporate governance rules written 100 years ago for neighbourhood borrowing clubs. The NFHA is expected to draw up new codes of conduct.

Improving the personnel of committees is perhaps the bigger issue. When Mrs Margaret Hodge, MP and former leader of Islington council, subsequently became the leader of the association referred to above, after the fraud, she recruited a new management committee from her address book.

Many committees are still recruited on the "old boys" network - and skills gaps often result. When the English Churches Housing Group, a leading association, needed a new chairman, it recruited an external search firm to find one. The price, it felt, was negligible compared to the cost of making the wrong choice. The NFHA's report may recommend that all new committee

members be recruited by open advertisement. At the same time, the NFHA wants to make associations more accountable to their tenants. The question is how to do this without letting untrained tenant representatives take complex financial decisions.

The NFHA may also suggest age or term limits for committee members. Presently, many are retired people, who often lack up-to-date expertise. And the make-up of some committees has hardly changed in decades.

Another way of adding expertise would be to allow chief executives to sit on the management committees of their own associations. The Housing Corporation still forbids this, although some associations get around the rule, and many have the chief executives of other associations on their committees.

Mr Donald Hoodless, who became chief executive of Circle 33 after the fraud, says: "The committee of management is ultimately responsible for everything."

The fear is that chief executives

on committees might dominate the less-informed members.

The most radical suggestion the NFHA might make would be to pay some committee members. This would not only require a change in ethics in housing associations, but also a change in their legal status.

By law, housing associations are not allowed to pay committee members, or even reimburse them for lost income. Most associations would in any case hate to change their voluntary ethic.

Yet some form of pay might help attract people with professional experience - and make committees feel more responsible.

Mr F. David Porter is both a deputy managing director of Nomura Bank and treasurer of the English Churches Housing Group. He takes holidays from work in order to attend management committee meetings. If, instead, the association could compensate Nomura for his absence, more bankers, accountants and lawyers might work for housing

associations. The NFHA may recommend that some large associations become non-profit businesses with paid directors, and possibly even shareholders. These would want to push up rents. Regulation would have to prevent this.

Alternatively, the NFHA may suggest that a wholly new legal entity be created, called "housing association", whose committee members could be paid.

At present, housing associations are either charitable trusts - companies with charitable status - or industrial and provident societies. Some are accountable to three regulators: the Charities Commission, the Registrar of Friendly Societies and the Housing Corporation. The paperwork is stilling.

Ministers and senior Housing Corporation officials have expressed interest in the idea of a new legal entity. However, creating it would require complex legislation, which no government would take on lightly.

Furthermore, as long as housing associations go under a variety of legal forms, it is almost impossible for any government to deprive them of their charitable status all at once.

And the pay issue will not go away. "What you want in the end is the most efficient movement," says Mr F. David Porter. But he admits that many in these multi-million pound charities would consider that a heresy.



Margaret Hodge recruited a new committee from her address book



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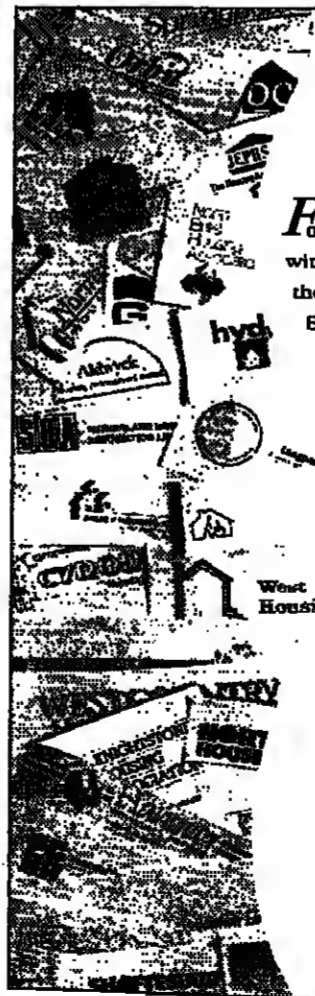
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HOUSING ASSOCIATIONS III

Andrew Taylor reports on construction

Cushion rudely removed

The cushion of housing association work that bolstered builders during the recession has been rudely removed by successive public spending cuts.

English housing associations which at one time had been expected to spend grants and receipts totalling £1.76bn in 1995-96 have seen this figure pruned by almost £570m.

As a result, house builders which had looked to housing association work to provide valuable revenue during hard times will find construction programmes severely reduced after seven years of almost uninterrupted growth.

The National Federation of Housing Associations expects the number of new homes started by builders to almost halve in 1995-96 to 18,000, compared with 35,000 in 1994-95.

The spending cuts have arrived just as the recovery in the private housing market appears to have run out of steam. House prices remain static while the traditional post-Christmas uplift in private sector sales has been slower than usual this year.

Rises in interest rates have undermined the already fragile confidence of potential purchasers who remain concerned about long-term employment prospects and reluctant to take on large mortgages.

Profit margins on private sector sales, however, have improved substantially as expensively acquired land bought in the late 1980s and early 1990s has largely been used up. With margins back to more nor-

mal levels—and unlikely to rise further—builders will need to increase the number of houses they sell in a subdued housing market in order to improve profits.

Builders, with private and public sector markets squeezed by spending cuts and higher interest rates, also have to combat increased material costs as suppliers have sought to improve their margins by raising prices. Housing associations will provide little comfort.

Mr Alan Cherry, chairman of Countrywide Properties, one of the most successful builders of homes for associations, is aggrieved by the government's response. He claims that "housing has borne a totally disproportionate share of the recent cuts in public sector capital expenditure."

The federation expects completions to slip in the next financial year to 38,000

He says builders who had responded to the government's previous championing of housing associations by increasing their investment in this market "are entitled to feel let down by the government action. The cuts will undoubtedly lead to unemployment in the construction sector and a further dangerous weakening of its capacity."

Total receipts from grants and sales of £1.18bn for the English associations for 1995-96 are 26 per cent lower than the

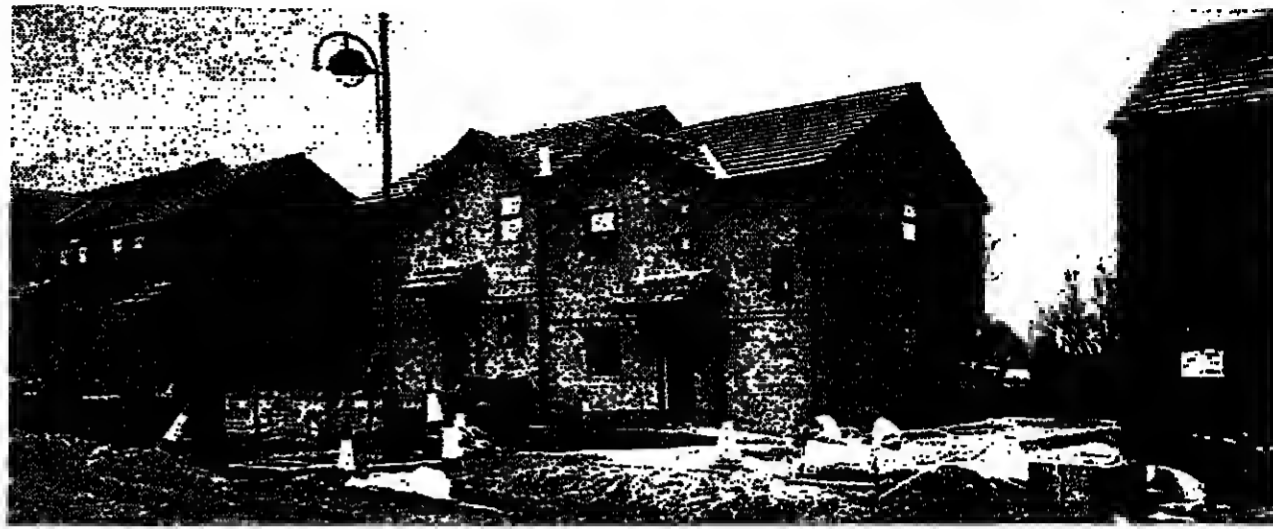
£1.49bn forecast for the current financial year and 48 per cent lower than the figure forecast for 1995-96 three years ago, says the National Federation of Housing Associations. Total receipts are forecast to dip further, to £1.17bn in 1996-97 before rising to £1.19bn in 1997-98. This figure is well short of grant levels available in the early 1990s when the number of homes acquired by English associations trebled from 20,889 to 62,137 between 1989-90 and 1992-93.

The federation expects completions to slip in the next financial year to 38,000 before falling steeply to 26,000 in 1996-97 and 23,000 in 1997-98. More importantly for the construction industry, the share of new homes is forecast to fall from 37,000 in 1994-95 to just 18,500 by 1997-98.

The proportion of homes acquired from private sector builders since 1989 has risen from just over half to about four-fifths, making housing associations an important customer for the industry.

Ministers say that some of the shortfall in public sector investment will be made up by increased private sector investment in housing association schemes. This has risen dramatically since the 1998 Housing Act, with the proportion of funds provided by the private sector to associations expected by government to rise to 42 per cent in 1995-96. This compares with 25 per cent private investment in 1989-90.

Some private investors which have furnished more than £5bn to housing associations since 1989, however, have become alarmed at the dependence of tenants on



House builders will find construction programmes severely reduced after seven years of almost uninterrupted growth

housing benefit to pay rents which have risen sharply to generate sufficient returns to attract private sector investments. According to the National Federation of Housing Associations, average weekly rents for new developments between 1989 and 1993 rose from £29.18 to £32.45, an increase of 80 per cent.

The proportion of new tenants eligible for housing benefit since 1989-90 has increased from 67 per cent to 83 per cent. More worrying for the government is that 49 per cent of tenants in employment are now eligible for benefit, compared with 27 per cent five years ago.

Investors are concerned that ministers might make further moves to stem housing benefit payments as they seek to con-

tain public spending. UK banks and building societies which have been the largest investors in association projects are unlikely, anyway, to want to continue investing at the same rate.

As a result, associations may have to look for alternative sources of private finance, including attracting overseas investors. This trend, however, will favour the bigger associations with large assets and a proven management.

House builders also might become more involved in financing arrangements as they seek ways to sustain their workload and break into other housing areas. Countrywide, for example, has secured more than £150m of development funds for partnership schemes with housing associa-

tions. It has also begun to finance and develop university accommodation. Mr Ian Riches, marketing director of Warrings, the Portsmouth-based construction group, says: "We are finding that the opportunity for housing association work has probably more than halved compared with last year. However, with the restructuring of the armed forces, this will be more than offset by accommodation work required by defence works services."

Other builders expect to reduce their output to housing associations as spending cuts bite deeper over the next two years. The housebuilding sector looks like remaining subdued unless there is a further recovery in the private housing market.

Simon Kuper examines the roles of the Housing Corporation

Separate regulation urged

This is easily the most enjoyable job I've ever had," says Mr Anthony Mayer, chief executive of the Housing Corporation. The Corporation, which channels £1.5bn of government funds to housing associations this year, is one of the UK's biggest-spending quangos. It polices as well as funds the housing associations.

Some believe that the two roles of the corporation should be split, with that of regulation passed to a separate body. Various arguments are put forward, most commonly that the corporation is too dominant, or that it is afraid of revealing problems in the sector for fear of being blamed itself.

The National Federation of Housing Associations believes that in the next five years or so the corporation should lose its regulatory powers. The National Audit Office is keen to take over some of these. With the Department of Environment carrying out its five-

yearly review of the corporation, Mr David Curry, the housing minister, is considering options.

Mr Mayer says: "This is a matter for ministers, but in my view, 'If it ain't broke, don't fix it.' Certainly, the corporation is not short of experience of the housing sector."

Mr Mayer left Oxford in 1967 for the old Ministry of Housing, and spent the next 18 years in the civil service, mostly in the Department of the Environment. In 1985 he left the civil service for a six-year stint with N M Rothschild, the UK merchant bank, before taking the helm at the Housing Corporation.

Mr Mayer regards the strong infusion of private finance into housing associations in recent years as a success for the corporation. "I remain confused and slightly disappointed that more attention isn't being given to it by the organisers of the Private

Finance Initiative," he says.

He quotes the figures: more than £6bn raised in private-sector finance for housing associations, and just £12.5m in bad loans, all of which are to the unregistered subsidiaries that the corporation cannot yet regulate. "That's a far better record than any other sector in this country."

Yet the NFHA, in a submission to the DoE's review, has said the sector is becoming so complex that a separate regulator is needed: an Ofhouse, in the jargon of the privatised utilities.

The NFHA has three chief complaints. The first is that the corporation is accountable only to the DoE, and not to local authorities, who supply

the land, or to housing associations and tenants. The members of the corporation's board are government appointees.

Mr Mayer says: "The Housing Corporation is not a *doppelgänger* government department. It has an independent board, which is not entirely passive in the sense of so many agencies set up by the government." When the government cut its grant last year, for the third time running, Sir Brian Pearce, the corporation's chairman, said the move was "disappointing."

Mr Derek King, the corporation's director of investment, admits: "Ultimately, our job is to get on and deliver whatever the government gives us."

The NFHA says the corpora-

tion tends to ignore the grievances of housing associations. Mr Nicholas Raynsford, the Labour party's housing spokesman, says Labour would create regional boards of the corporation so that funding decisions were taken locally.

On regulation, the NFHA says that the corporation tends to be intrusive and overprescriptive on minor matters; that it monitors risk and performance too little; is bad at spotting big problems early; and has made little progress on using performance indicators.

Mr Mayer disagrees. The corporation has overhauled its regulatory activities in the

past year, he says. It now makes housing associations fill in lists of performance indicators. Last month, the corporation published the results for the first time.

On the basis of the figures, it carries out a desk-top review of all associations receiving government grant. It then visits the associations that seem to have problems, and carries out other random checks to make sure the information submitted is correct. Associations must now submit pilot-style accounts.

Before April 1994, the corporation used to visit far more associations at random. It hopes that the new system will allow it to target its slim resources better. The NFHA's

third argument is that the corporation's two roles are at odds with each other. As funding, it wants to see homes are built—but this might stop it from cracking down, as regulator, on a dubious builder.

Furthermore, it is supposed to press associations to build good homes while at the same time telling them to make do with less money.

The NFHA says: "The corporation's combined functions make it too powerful in relation to housing associations."

As the grant falls, more and more associations are building without government funding, so the link between funder and regulator disappears. Mr Mayer dismisses most of these criticisms as theoretical. He argues that since he is accountable for government funds, he has to know which associations are suitable recipients. A separate regulator would be less responsive to failure, since it would lack the corporation's power to adjust

funding in order to induce improved practice.

Ultimately, lenders know the corporation and derive comfort from its presence. This comfort, says Mr Raynsford, is the corporation's main reason for being.

The NFHA accepts this, and recognises the force of many of Mr Mayer's other points.

Mr Mayer thinks most problems would be solved if the rented sector as a whole were bigger. "There is an unanswerable case for more GDP going into renting," he says. And more and more people want to rent not buy. Increasingly, they are getting divorced, working on short-term contracts, and regarding houses as consumption rather than investment goods.

But the revival of the private rented sector is beyond Mr Mayer's remit. For the next few years at least, the corporation's funds will remain the chief source of new rented housing for the less well-off.

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INTERNATIONAL CAPITAL MARKETS

Treasures higher on retail prices data

By Lisa Branstetter in New York and Graham Bowley in London

US Treasury prices edged higher yesterday morning as retail sales figures for January came in generally as expected and dealers covered short positions in advance of more economic data due today.

At midday, the benchmark 30-year Treasury was up 1/8 at 99 1/8, to yield 7.638 per cent. At the short end of the market, the two-year note rose 1/4 to 100 1/4, yielding 7.302 per cent.

The Commerce Department reported retail sales up 0.2 per cent overall in January and 0.4 per cent excluding motor vehicles. Although the figures were lower than median estimates of 0.4 and 0.7 per cent respectively, they matched the trend predicted by economists because they were accompanied by upward revisions to November and December data.

The latest figures showed

strong gains in non-durable goods, including petrol, offset by weakness in durable goods, such as cars and furniture.

Most economists said the data supported the idea that the economy was slowing but did not agree how the Federal Reserve might view them.

GOVERNMENT BONDS

Mr David Bloom, an economist at James Capel, said: "The main issue is not whether growth is slowing but whether it will slow sufficiently to convince the Fed that it has tightened monetary policy enough to avert an inflation threat. We believe it has not."

In addition to the retail sales data, traders were taking economic figures due today into account. Statistics on consumer prices and capacity utilisation are to be released.

which some fear will continue to show inflationary pressures. Economists expect January capacity utilisation close to 85.5 per cent, up from 85.4 per cent in December.

The Spanish government bond market was Europe's best performer, on weaker than expected inflation data.

Other European government bond markets were largely subdued, with attention on the sharp currency movements on the foreign exchanges, and bond prices settled only slightly higher on the day. The yield spread on Spanish government bonds over German bonds narrowed to 407 basis points from 417 basis points.

Dealers reported buying of short-dated bonds, with the yield spread between the two and 10-year maturities widening but traders were cautious and expected profit-taking in the next few days.

Mr Ken Wattret, international economist at HSBC, doubted whether the inflation data fully reflected the recent VAT rise, which he expected to boost next month's figures.

However, dealers reported late selling of bonds and Ffior money contracts triggered by an opinion poll showing prime minister Mr Edouard Balladur's lead in the forthcoming presidential elections narrowing.

Ms Alison Cottrell, at PaineWebber, said this could have a further negative effect on markets today.

The yield spread over bonds remained broadly unchanged at around 50 basis points.

Lack of progress on the IG Metall wage dispute held back the German government bond

market, which underperformed the rising US Treasury market.

The March bond futures contract on Liffe was up 0.32 at 90.49 in late trading. But the yield spread below US Treasury closed from 29 basis points to 23 basis points.

Traders said that some investors were moving out along the yield curve from the currently expensive five-year maturity into seven-year bonds.

UK government bonds underperformed other markets due to the weakness of the pound.

The long gilt future on Liffe was up 1/4 at 101 1/4 in late trading with a yield spread over bonds of around 146 basis points.

The Bank of England announced that at next week's auction it will sell £2bn of the 8 1/4 per cent gilt due December 7 2005, which is fungible with an existing issue.

Italy sees big saving on Ecu5bn loan terms

By Martin Brice

Italy's Ecu5bn syndicated loan announced on Monday will save it almost a full percentage point compared with the cost of issuing bonds, the Italian treasury said yesterday.

The latest auction of Italian government bonds denominated in Ecu, known as Certificati del Tesoro (CTEs), resulted in CTEs being sold in January by the Italian treasury at a fixed rate of around 100 basis points over Libor.

The Ecu5bn loan has been priced at 8 basis points over Libor, showing the savings available to borrowers in the market for international credit, where aggressive competition among banks has forced pricing down to very low levels, particularly for sovereign debt.

Mr Vincenzo La Via, of the Italian treasury, said: "The loan will give us as much flexibility as possible, and we are getting an attractive saving."

The funds will be used to pay for maturing CTEs. Around Ecu500m worth have been issued, of which Ecu100m mature in 1995.

The performance of CTEs has been volatile, partly due to the arbitrage opportunities allowed by their being liable to 12.5 per cent withholding tax for domestic investors, which non-Italians can reclaim.

Mr La Via said the treasury had hoped that by reducing the size of the CTE market, spreads on remaining issues would tighten. This had already begun, he said. "We expected spreads to come in, which we have seen. They have come in by 5 basis points, at least so far."

J.P. Morgan will co-ordinate the Ecu5bn loan, and international banks will be asked to underwrite Ecu300m amounts.

Globalstar shares priced at \$20 each

By Corinne Middlebrook

A 10m share initial public offering for Globalstar, Telecommunications, the partnership formed by Loral Corporation and Qualcomm to design, build and operate a low-earth orbit satellite-based mobile communications system, was priced yesterday at \$20 a share.

Pricing was lower than the initially targeted \$24 to \$26 range, and even below the \$21 to \$22 indicated late last week, when the offering was reduced to 10m shares from the planned 12m. After launch, the stock traded around \$19 in late London dealings.

Nevertheless, Mr Bernard Schwartz, Globalstar chairman and CEO, said: "We're very pleased with the result - it was well within the target range of what we wanted to do."

He said the terms had been scaled back as a result of difficult market conditions and subdued investor demand for a company which would not produce revenues for several years.

Globalstar plans to begin launching satellites in the second half of 1997, to start commercial operations in 1998 and to generate revenues and positive cashflow in the first 12 months of operation.

"We looked at the company and liked it - but the problem is that it doesn't earn any revenues until around 1998," said Mr Michael Mahoney, portfolio manager at the GT Global Telecommunications Fund in San Francisco. "My feeling is why buy this now?"

In a previous, private financing round Globalstar raised \$275m among telecommunications operators and hardware manufacturers. To meet the project's total capital cost of \$1.95bn, Globalstar plans to raise more funds through the sale of franchises, vendor financing and short-term borrowing.

Globalstar is just one of several groups competing for capital in the global satellite telecommunications race, and the first to complete a public transaction.

Ground-breaking Ecu500m deal for Denmark

By Martin Brice

Dollar deals remained thin on the ground in the eurobond market, as investors waited for economic data due this week.

The Kingdom of Denmark provided a deal for investors in sovereign paper when it raised Ecu500m with the first one-year Ecu issue.

INTERNATIONAL BONDS

The coupon is 6 1/2 per cent, which lead manager Credit Commercial de France said provided funds at a "double-digit" number of basis points below Libor. Other houses suggested the deal cost Denmark between 35 and 40 basis points under Libor.

By comparison, the Republic of Italy is seeking a Ecu5bn syndicated loan at 8 basis points over Libor to pay for maturing government Ecu bonds.

Denmark will use the funds partly to refinance \$1.5bn of maturing debt. It is the biggest Ecu bond since Portugal raised Ecu750m a year ago, and CCF reported strong demand from central banks and supra-national institutions.

Eurofima, the Swiss-based group which funds the purchase of railway rolling stock, raised FF1.3bn with a 10-year bond callable at five years. The coupon for the first five years is 8.04 per cent, rising to 8.41 per cent if the bonds are not called. Joint book-runners are CDO and Zurich.

Merrill Lynch brought three deals, two in yen and one in euros. The yen deals were handled by Merrill Lynch, which said the 750m, four-year, with a coupon of 4.23 per cent and the ¥150m seven-year with a coupon of 5.05 per cent were targeted at different types of institutional investors.

It also issued Esc11.4bn of seven-year floating-rate notes

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount	Coupon	Price	Maturity	Yield	Spread	Book runner
US DOLLARS							
Delo Paper Corp (off)	100	4.75	100.00	Mar 1999	2.25	-	Yanacchi Int (Europe)
YEN							
Asahi Finance Corp (off)	250n	6.1/4	100.00	May 2005	undf	-	Salomon Brothers Int.
Merrill Lynch & Co. (off)	50n	6.25	100.275n	Jun 1998	0.275n	-	Merrill Lynch International
Merrill Lynch & Co. (off)	150n	6.50	100.375n	Jun 2002	0.375n	-	Merrill Lynch International
ITALIAN LIRE							
Helios Finance	2000n	11.00	101.28	Mar 1998	1.375	-	Boud. Romaine/Credit Italiano
GECCO	1000n	11.00	101.483	Feb 1998	1.375	-	J.P. Morgan Securities
FRANCIS FRANCES							
GECCO	1.25n	6.1/4	100.00n	Mar 2005	0.25n	-	CCO/ Banque Paribas
ECUS							
Kingdom of Denmark (off)	500	8.75	99.949n	Mar 1998	0.10n	+58p-60	CCO
GECCO	50	8.75	100.22n	Nov 1998	0.20n	-	CCO
SECURITIES							
Merrill Lynch & Co. (off)	11.45n	6.1/4	100.00	Mar 2002	0.25	-	Banco Finanzi

Final terms, non-callable unless stated. Yield spread over relevant government bond at issue as supplied by lead manager. +Undf, Floating equity warrants. 2 Floating-rate notes. 3 Fixed-rate notes. 4 Fixed-rate notes. 5 Fixed-rate notes. 6 Fixed-rate notes. 7 Fixed-rate notes. 8 Fixed-rate notes. 9 Fixed-rate notes. 10 Fixed-rate notes. 11 Fixed-rate notes. 12 Fixed-rate notes. 13 Fixed-rate notes. 14 Fixed-rate notes. 15 Fixed-rate notes. 16 Fixed-rate notes. 17 Fixed-rate notes. 18 Fixed-rate notes. 19 Fixed-rate notes. 20 Fixed-rate notes. 21 Fixed-rate notes. 22 Fixed-rate notes. 23 Fixed-rate notes. 24 Fixed-rate notes. 25 Fixed-rate notes. 26 Fixed-rate notes. 27 Fixed-rate notes. 28 Fixed-rate notes. 29 Fixed-rate notes. 30 Fixed-rate notes. 31 Fixed-rate notes. 32 Fixed-rate notes. 33 Fixed-rate notes. 34 Fixed-rate notes. 35 Fixed-rate notes. 36 Fixed-rate notes. 37 Fixed-rate notes. 38 Fixed-rate notes. 39 Fixed-rate notes. 40 Fixed-rate notes. 41 Fixed-rate notes. 42 Fixed-rate notes. 43 Fixed-rate notes. 44 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TRANSPORT Cont.

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Where stocks are discontinued are indicated after the name.

to plants and PVE notes. One
to the collections section in each
quarter.

Estimated prize money for the
annual sale is £100,000. The
amount is not guaranteed, but
on profit after expenses, including
the 20% commission charged
for a dedicated lot of 200 per
cent.

Estimated net Asset Values
per share, along with the
dividend, are as follows:


1995 10p, 1996 10p, 1997
10p, 1998 10p, 1999 10p, 2000
10p, 2001 10p, 2002 10p, 2003
10p, 2004 10p, 2005 10p, 2006
10p, 2007 10p, 2008 10p, 2009
10p, 2010 10p, 2011 10p, 2012
10p, 2013 10p, 2014 10p, 2015
10p, 2016 10p, 2017 10p, 2018
10p, 2019 10p, 2020 10p, 2021
10p, 2022 10p, 2023 10p, 2024
10p, 2025 10p, 2026 10p, 2027
10p, 2028 10p, 2029 10p, 2030
10p, 2031 10p, 2032 10p, 2033
10p, 2034 10p, 2035 10p, 2036
10p, 2037 10p, 2038 10p, 2039
10p, 2040 10p, 2041 10p, 2042
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WORLD STOCK MARKETS

EUROPE

AUSTRIA (Feb 14/95)

Index	1,234.56
Change	+12.34
High	1,245.67
Low	1,223.45

GERMANY (Feb 14/95)

Index	3,456.78
Change	+45.67
High	3,478.90
Low	3,434.56

FRANCE (Feb 14/95)

Index	2,345.67
Change	+34.56
High	2,367.89
Low	2,323.45

ITALY (Feb 14/95)

Index	1,234.56
Change	+23.45
High	1,256.78
Low	1,212.34

NETHERLANDS (Feb 14/95)

Index	4,567.89
Change	+56.78
High	4,589.01
Low	4,545.67

PORTUGAL (Feb 14/95)

Index	5,678.90
Change	+67.89
High	5,700.12
Low	5,656.78

SPAIN (Feb 14/95)

Index	6,789.01
Change	+78.90
High	6,811.23
Low	6,767.89

SWEDEN (Feb 14/95)

Index	7,890.12
Change	+89.01
High	7,912.34
Low	7,878.90

SWITZERLAND (Feb 14/95)

Index	8,901.23
Change	+90.12
High	8,923.45
Low	8,889.01

UNITED KINGDOM (Feb 14/95)

Index	9,012.34
Change	+01.23
High	9,034.56
Low	8,990.12

WEST GERMANY (Feb 14/95)

Index	10,123.45
Change	+12.34
High	10,145.67
Low	10,101.23

INDICES

Feb 14

Index	1,234.56
Change	+12.34
High	1,245.67
Low	1,223.45

Feb 13

Index	1,234.56
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Index	1,234.56
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Feb 8

Index	1,234.56
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High	1,245.67
Low	1,223.45

Feb 7

Index	1,234.56
Change	+12.34
High	1,245.67
Low	1,223.45

Feb 6

Index	1,234.56
Change	+12.34
High	1,245.67
Low	1,223.45

Feb 5

Index	1,234.56
Change	+12.34
High	1,245.67
Low	1,223.45

Feb 4

Index	1,234.56
Change	+12.34
High	1,245.67
Low	1,223.45

US INDICES

Feb 14

Index	1,234.56
Change	+12.34
High	1,245.67
Low	1,223.45

Feb 13

Index	1,234.56
Change	+12.34
High	1,245.67
Low	1,223.45

Feb 12

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Change	+12.34
High	1,245.67
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Index	1,234.56
Change	+12.34
High	1,245.67
Low	1,223.45

AFRICA

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Index	1,234.56
Change	+12.34
High	1,245.67
Low	1,223.45

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High	1,245.67
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High	1,245.67
Low	1,223.45

ASIA

Feb 14

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Change	+12.34
High	1,245.67
Low	1,223.45

PACIFIC

Feb 14

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High	1,245.67
Low	1,223.45

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Feb 6

Index	1,234.56
Change	+12.34
High	1,245.67
Low	1,223.45

Feb 5

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

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Continued on next page

ave your
Time
Financial

[illegible]

4 pm close February 7.

[illegible]

Financial Times. World Business Newspaper.

Jane Smith	17	6'11"	312	3 $\frac{1}{2}$	9 $\frac{1}{2}$	-	+2	Frank	5	2'10"	8 $\frac{1}{2}$	8 $\frac{1}{2}$	8 $\frac{1}{2}$	-	+2
John Doe	15	2'18"	6	0 $\frac{1}{2}$	5 $\frac{1}{2}$	6	-	Powell	14	5'34"	16 $\frac{1}{2}$	5 $\frac{1}{2}$	6	-	+2
James Lee	16	5'10"	167	3 $\frac{1}{2}$	9 $\frac{1}{2}$	6	-	Free Life	0.09	5	8'45"	5 $\frac{1}{2}$	5 $\frac{1}{2}$	-	+2
Johnson W.	18	8	10 $\frac{1}{2}$	19 $\frac{1}{2}$	19 $\frac{1}{2}$	-	+2								
Jones Int	11	110	118 $\frac{1}{2}$	14 $\frac{1}{2}$	14 $\frac{1}{2}$	-	+2								
James M.	12	110	118 $\frac{1}{2}$	14 $\frac{1}{2}$	14 $\frac{1}{2}$	-	+2								

-X-Y-Z-

AMERICA

Sales data fail to give direction

Wall Street

US share prices edged down yesterday morning as data on January retail sales failed to provide the market with direction and investors awaited more figures due out today, writes Lisa Branstetter in New York.

At 1pm the Dow Jones Industrial Average was off 2.69 at 3,951.52. The Standard & Poor's 500 lost 0.61 at 481.04 and the American Stock Exchange composite shed 0.41 to 447.19. The Nasdaq composite edged 0.33 to 788.05. Volume on the NYSE was 172m shares. According to the Commerce

American Express

Share price (\$)



Department, retail sales rose only 0.2 per cent in January, and 0.4 per cent excluding auto sales. Relatively strong gains in non-durable goods such as department store merchandise and petrol were offset by weakness in sales of durable goods such as cars and furniture.

Although the figures were weaker than expected, they generally fell in line with trends predicted by economists because their release was accompanied by upward revisions to November and December figures.

Mr Ed Yardini and Ms Debbie Johnson at C.J. Lawrence/Deutsche Bank Securities offered ambiguous commentary on the slightly weaker than expected sales figures. "We do not think (a) soft landing has started, but it is possible," they said.

Mexico makes gain

Equities rose in early trading on reports that the governor of Chiapas had resigned in an effort to bring peace to the war-torn state.

The IPC index was up 15.87 at 1,946.04 in light turnover. SAO PAULO recovered some composure at midsession, having fallen 4 per cent at the opening. The Bovespa index was down 736 or 2 per cent at 32,313 at 1pm in turnover of R\$271m (\$252m).

Analysts said the fact that President Fernando Henrique Cardoso intended to send reform proposals to Congress

Golds overcome early losses

Gold shares recovered early declines in Johannesburg as bullion posted a mild gain and sentiment towards the metal improved. However, the recovery was limited by the continued strength of the financial rand following comments by President Nelson Mandela late on Monday that the country was considering dropping the dual-currency system.

The overall index dipped 29.5 to 5,183.5 and industrials fell 37.9 to 6,341.8 but golds ended 9.3 ahead at 1,602.9. Escor came under pressure but closed off the day's worst. It was finally 15 cents off at R4.20, having touched R4.08, after announcing on Monday that it was going ahead with its R1.3bn rights issue at R3.30 a share.

EUROPE

Pechiney International declines 8.8% in Paris

Modest turnover characterised equity markets, while the latest US economic data failed to excite.

Mr Joe Rooney, Lehman Brothers European equity strategist, yesterday cut his weighting in the Netherlands to neutral, and increased exposure to the Swiss and Swedish markets. He explained that he expected to see "a decline in the risk premium in European financial assets and consequently investors should be prepared to become less risk averse".

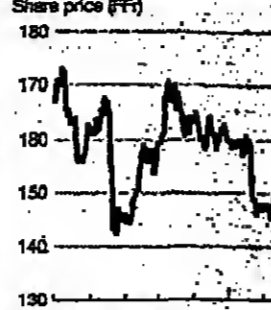
As a result of the change Royal Dutch and Elf were to be removed from Lehman's recommended portfolio, and Volvo and Nestlé included, to reflect a more positive stance towards the consumer cyclical sector at the expense of the energy sector.

P42325 failed to hold on to earlier highs and the CAC-40 index finished with a gain of 5.78 at 1,856.09, after a high of 1,865.07. Turnover was FF2.5bn.

Pechiney International suffered a sharp fall following the release of disappointing 1994 results, released after hours on Monday, which surprised analysts by the size of the loss.

Pechiney International

Share price (FF)



The shares dropped FF13.20 or 8.8 per cent to FF136.80 in high turnover.

Mr Lionel Rayon of Nomura in Paris commented that in spite of the negative results he still believed that the packaging company, in which Pechiney, the state aluminium group, holds a 67 per cent stake, had "upside potential" in 1995 and 1996.

But, he added, the company now had to demonstrate to investors that the new management team was seriously addressing strategic issues. "Credibility in the manage-

ASIA PACIFIC

Nikkei easier as Deng health reports restrain region

Tokyo

Shares slipped as profits were taken on construction issues and corporate shareholders sold stock ahead of the March year-end book closing, writes Emiko Terazono in Tokyo.

The Nikkei 225 average lost 175.39 at 18,138.47 after a day's low of 18,065.13 and high of 18,277.44. Investor confidence was depressed by the announcement on Monday by Japan Securities Finance, the company which lends out stocks for margin trading, that it was running short of Fudo Construction shares.

Growing worries over reports that Mr Toshio Yamaguchi, secretary general of the New Frontier party, the main opposition group, had been close friends with Mr Harumi Takahashi, owner of a speculative property development company and former president of one of the two credit unions of the two credit unions of the city, also hit trading in the afternoon.

Mr Yamaguchi subsequently announced his resignation from the party's post, further damaging investor confidence and raising fears of political turbulence. Mr Takahashi is well known for his links to politicians on both the ruling and opposition parties.

Volume totalled 260m shares, against 286m. Individuals sold construction shares, while overseas investors and companies took profits on their blue chip holdings. Traders said the rise in the yen partly prompted selling by foreigners.

The Topix index of all first section stocks shed 18.08 to 1,409.37 and the Nikkei 300 declined 3.09 to 258.32. Falls led advances by 783 to 200, with 205 issues unchanged. But in London the ISE/Nikkei 50 index edged up 1.06 to 1,155.29. Sumitomo Construction, the day's most active issue, fell Y13 to Y762, while Fudo Construction dropped Y80 to Y1,170. Bridging companies were also lower, with Penta-Ocean Construction retreating Y26 to Y814.

Sega Enterprises fell Y200 or 4 per cent to Y4,940 on reports that it might be losing a battle with Sony over a new genera-

tion of video game machines. The shares had been dropping for the past few days, after rising to Y5.180 on February 2.

Overseas investors liquidated holdings in the electrical sector: Matsushita Electric Industrial receded Y30 to Y1,870 and NEC Y14 to Y910.

Selling by foreign brokers depressed trading companies, with Mitsui sliding Y22 to Y712 and Sumitomo Y22 to Y863. Corporate selling hit large capital issues, including Nippon Steel, down Y4 to Y346, and Mitsubishi Heavy Industry, Y24 weaker at Y763.

Sumitomo Metal Mining was among the day's winners, moving forward Y3 to Y804 on speculative buying.

In Osaka, the OSE average shed 222.75 to 19,960.49 in volume of 70.3m shares. Aoyama Trading, the suit maker, lost Y120 to Y1,900 on profit-taking.

Roundup

Reports in a South Korean newspaper that Deng Xiaoping, the Chinese leader, was in a coma and on oxygen support made for an uneasy session in many regional markets. Bangkok was closed for a public holiday.

HONG KONG remained in the doldrums in the absence of fresh impetus, and the Hang Seng index finished 112.15 or 1.4 per cent lower at 7,853.67, having been as much as 165.19 points down in morning trade.

Dealers said that most investors were sidelined awaiting the outcome of renewed trade talks between the US and China, and this week's key US economic data.

Turnover picked up to HK\$2.7bn from Monday's HK\$2.2bn. HSBC declined HK\$1.75 to HK\$78.25, Henderson Land was down HK\$1.00 at HK\$36.40 and Hang Seng Bank slipped 90 cents to HK\$44.60.

The H-shares of the 15 mainland China companies listed in Hong Kong were generally easier, the index surrendering 7.17 at 1,045.55.

SINGAPORE was slightly easier as, in the absence of fresh news, the market's consolidation continued. The Straits Times Industrial Index closed 4.05 lower at 2,089.07 in volume of 180.9m shares.

FT-SE Actuarial Share Indices

		THE EUROPEAN SERIES									
		Feb 14	Feb 13	Feb 12	Feb 11	Feb 10	Feb 9	Feb 8	Feb 7	Feb 6	Feb 5
Daily changes		Open	High	Low	Close	Open	High	Low	Close	Open	High
FT-SE 100	1345.85	1345.18	1345.50	1345.15	1345.15	1345.15	1345.15	1345.15	1345.15	1345.15	1345.15
FT-SE 250	1382.39	1382.32	1382.53	1382.35	1382.35	1382.35	1382.35	1382.35	1382.35	1382.35	1382.35

ment of the company has been shaken," he said, "and the market now wants tangible signs that things are beginning to turn around." This would be revealed in September when the company was due to publish first-half 1995 figures.

Alcatel Alsthom, down FF4.00 to FF441.10, published good 1994 sales figures which could prompt a rise in the stock today, brokers said. Its subsidiary, Alcatel Cable, lost FF4.17 or 4.3 per cent at FF574.

FRANKFURT made ground during official hours but slipped back in the Dax in reaction to US retail sales data. The DAX index ended up 16.39 at 2,133.24, while the Dax settled at 2,128.33. Turnover was DM5.7bn.

Construction stocks did well, with Bilfinger & Berger up DM20 to DM745, and Holzmann

DM2 higher at DM787 ahead of the release of 1994 sales and earnings figures today.

Lufthansa added DM2 at DM205, helped by reports that European airlines were finally emerging from the recession, with passenger numbers rising.

MILAN was mixed at the end of the February account, with the Comit index falling 2.20 to 688.74 but the real-time Mibtel index registering a rise of 33 at 10,722.

Telecom Italia was one bright spot, rising 1.68 or 2.2 per cent to 1,455.95 on the back of US demand which emerged after the retail sales figure was released early in the afternoon.

The insurers also put in positive performances in response to foreign demand, with Ras Lys higher at L17,938 and Generali gaining L346 at L39,551.

A LIS fall in Montedison to

L1,244 was attributed to rumours that a leading investment bank was downgrading its view of the company, which many analysts are expecting to have broken even at operating level last year.

Olivetti continued on its downward path, giving up L38 to L1,906, while Fiat was L27 lower at L6,518 in spite of news that it had regained second place in the European new car registrations league in January, its best performance for two years.

ZURICH finished higher, but below its best levels, in low volumes, with the day's US retail data failing to enliven trading and the market awaiting today's US CPI figures. The SMI index moved forward 6.4 to 2,642.

UBS bearers were actively traded but they managed to pick up just SF1 to SF1,038, with the bank again said to be buying its own stock.

Chemicals saw demand, with Roche certificates firming SF40 to SF4,780 and Sandoz gaining SF14 at SF7,712 as renewed demand was seen from London investors.

SMH advanced SF21 to SF658, with ABB-ABB, which has recommended the stock,

said to be a big buyer. MADRID overcame early indecision which followed stronger than expected January CPI data to end near the day's highs in lively trading.

Analysts said that a 1 per cent rise in January inflation, which was well below expectations, prompted initial speculation that next month's figure could disappoint. However, the cautious subsequent gave way to optimism and the General index rose 2.18 to 289.14 in turnover of Ptas24.6bn.

STOCKHOLM was underpinned by hopes of good company reports. The Aftersvriden general index added 10.50 at 1,563.50. Ericsson was the most traded share in turnover of SEK3.2m as the stock rose SEK8 or 1.9 per cent to SEK148.50 in technical trade.

COPENHAGEN was flat in spite of a sharp fall in Unibank, the second largest company group. The Top 20 KFX index edged 0.08 higher to 96.15 as Unibank fell DKr5 to DKr225 on profit-taking and foreign selling of the stock.

Written and edited by John Pitt and Michael Morgan

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Postcode _____

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